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# MEMORIES FOR SALE

*The nostalgia business is booming as entrepreneurs become more creative in offering ways to revisit the "good old days."*



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*Stew Leonard, Owner of World's Largest Dairy Store*

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*It lights the fire of enthusiasm and inspiration in our people."*

"I'm a strong supporter of Dale Carnegie Training®, a firm believer. My company is based upon the fundamentals of Dale Carnegie®, and our success is directly attributable to those principles, to the Carnegie philosophy. Our mission is to create happy customers, and Dale Carnegie® is the way we do it, the vehicle that makes it possible. Almost all our people have gone through the Dale Carnegie Course®, about 95 percent of them, because it helps them develop the right attitude about the company, about themselves and other people as well.

We're very proud of our association with Dale Carnegie®, of the number of our people who have gone through the training. When a new employee comes to us, the first thing we look for is the right attitude, because success begins with attitude. Second, once we find someone with a good attitude, we train them in the Stew Leonard way of doing things, and that includes not only training in their specific job, but an understanding of our traditions. Then they go through Dale Carnegie Training®, because, if you want to start a fire, you've got to strike a match, and that's what Dale Carnegie® does for us. It lights the fire of their enthusiasm, of their inspiration. It makes them want to become themselves at their very best. Then when they're ready, we encourage them to apply everything they've learned. And, we make it all fun. We call it WOW. We put in the WOW so it stops being work and starts being fun.

People from other food stores around the country often come through my store looking for the secret of our success. They look at everything, at the machinery and layout and products carried, but the real secret of success at Stew Leonard's is our people.

In my wildest imagination, I would not have predicted

15 years ago that I would be the owner of a business now doing \$100 million a year. But it has happened, and it has happened because I was fortunate enough in the beginning to go through Dale Carnegie Training®, training that taught me how to overcome my natural lack of self-confidence and how to believe in myself.

I was only 20, fresh out of college, when it fell to me to run our small family dairy business. I was the youngest in a family of seven and all the employees here were twice my age. I was intimidated, but I wanted to succeed. I took the Dale Carnegie Course® to learn to work with people and got so very much more from the Course. I learned that I could become a leader. I learned about human relations and to respect the dignity of other people. I gained the confidence I needed to manage and build my company. It gave me the understanding that success depends on other people sharing your philosophy and inspiration and working together toward a common goal.

If you want to grow, if you want to become more successful, you have to learn how to get along well with other people and how to motivate them. It sure helps to learn how to speak in front of people, too, because, if you've got 630 people working for you, like I have, there's no way to inspire them without getting up in front of the room and talking. And there's no place in the world better to learn all this than in a Dale Carnegie Course®.

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## FEATURES



PHOTO: JIM CHAPPELL

**Nostalgia for a time** when youth seemed endless brings tourists to Graceland, Elvis Presley's Memphis estate, run by Jack Soden. On display is the pink '55 Cadillac that Presley gave his mother. Cover Story, Page 18.



PHOTO: RICH FISHMAN

**A customer's check** is verified instantly with a computerized system activated by cashier Janet Garguile. Page 45.

## COVER STORY

### 18 Memories For Sale

As the baby boomers trudge into middle age—the period of life when nostalgia comes most naturally—businesses large and small are inviting them to look back fondly at their younger days.

*22—A Business That Outgrew Nostalgia*

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Judges are chipping away some long-standing protections for board members' business decisions and are stepping in on the side of minority shareholders in closely held firms.



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Washington, D.C.

## DEPARTMENTS



PHOTO: © JACKSON HILL

**Vinyl rooms** made by the Scurlock family give the earthbound a Space Walk bounce. *Making It, Page 13.*

## Editor's Note

## The Memories Business

Before Senior Editor Michael Barrier began his research for this month's cover story on the business of nostalgia, he addressed the basic question: Just what is nostalgia? The answer isn't as obvious as you might think. Anyone considering the varied business opportunities provided by the search of each generation for its past should be aware of his conclusions.

"Entrepreneurs need to realize," Barrier writes, "that nostalgia can be tricky. . . . It's not the same as enthusiasm for what's old." True nostalgia, he adds, is based on living memory, "and where nostalgia exists in a

form that astute businesses can tap, it originates less in private, personal memories than in the shared memories of a generation."

Also be aware, Barrier advises, that the fact that you are selling nostalgia doesn't insulate you from mundane business problems:

"Few if any of the businesses I examined depend on nostalgia alone for success. In most cases, their products or services have validity *now*, however much they may evoke the past. The Silver Diner's owner, for example, understands he may attract customers by summoning up their youth, but they will not eat there a second time unless the food is good."

Reality is also important in the memories business. An entrepreneur offering reproductions of a classic 1940s jukebox found that 75 percent of his customers still wanted the real thing at three times the price. Even the most faithful reproduction, Barrier tells us, "has one shortcoming that nothing can remedy: It did not exist in the past that many jukebox owners want to recapture."

On the other hand, you can have too much reality. An entrepreneur who recreated a 1950s diner decided not to offer a menu staple of that era—creamed chipped beef on toast.

Whatever business you're in, we're sure that you'll enjoy this fascinating report, which not only explores an unusual entrepreneurial niche but also provides insights into a generation on the verge of middle age.



PHOTO: T. MICHAEL KEZA

**Fifties-style diners** must serve good food as well as nostalgia to succeed, says Senior Editor Michael Barrier.

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*Robert T. Gray*  
Robert T. Gray  
Editor



# Letters

## No Parking In Family Firms

In the article "Fair Pay in Family Firms" [October], Sharon Nulton did a nice job in reviewing the issues, and [consultant] David Morris is right on target with his points.

I have only one addition: After families have worked out the details about family pay, write them down, and publish them widely throughout the family and, when appropriate, inside the business. This will make it clear to family and nonfamily alike that you operate a system based on merit, the old-fashioned, professional way.

While families are establishing fair pay on a merit system, they might also consider adopting a "no parking" policy: "We do not park unqualified family members in the business."

Such a decision would go a long way toward keeping peace in the family.

David Bork  
Coda Corp.  
Aspen, Colo.

This very useful article will help many persons with siblings in and outside a family business. However, the implication that the ownership may be bequeathed to more than one sibling working in the business needs examination.

Many professional advisers who have watched more than one generation operating a family business conclude that it is generally wise to provide a mechanism that vests ultimate control and ownership with one sibling.

The courts are filled with cases in which a surviving sibling in business is sued by an irate brother or sister (or sister-in-law, after divorce) for compensation, equity, or claims of mismanagement.

And, thinking beyond the second generation, will the business ownership and control be divided again among those of the third generation?

Flexibility and quick decision making, which are hallmarks of small-business efficiency, can be destroyed through diluted ownership and management.

Most first-generation business people who would not want to share business ownership or control with relatives [nonetheless] unwittingly—often for

tax benefit—saddle their siblings with these vexing problems.

Wilfred H. Hall  
Edgecomb, Maine

## A Voice On The Phone

Your cover story in the October issue, "Look Who's Working at Home," was very interesting and certainly reflects the many changes going on in the work-



PHOTO: ROBERT RATH—FOLIO INC.

*Even with all the advances in the electronic-answering industry, some people still prefer the personal touch.*

place today. I was disappointed, however, to see that in the box under the headline "Create Your Space, Choose Your Tools," you advised consideration of an answering machine or voice-mail system but left out a third choice—the live answering service.

In spite of the many technological advances in the electronic-answering industry, there are still those who prefer to have their phones answered by a human being, and for those working from their homes who wish to provide a professional response to their clients' calls, the live service is still a good option.

Nancy P. Ward  
President  
All Hours Telephone  
Answering Service  
Pompton Lakes, N.J.

## Circumstantial Evidence?

I read the commentary "Smart Approaches To Productivity," by Warren T. Brookes, in the October issue, where the productivity theories of John Kendrick and John H. Bishop were discussed.

I for one am getting fed up with the

way columnists are forever using correlation to "prove" cause-and-effect relationships between variables. That is, in this case, between knowledge and productivity.

Reduced to the least common denominator, correlation does not necessarily mean causality. The evidentiary case Brookes built was circumstantial at best.

Even strong correlations do not allow inferences about what causes what; they do allow prediction. Brookes, at best, can predict a relationship between "the more we know" and "the more we produce" or "as knowledge advances, so does output."

What is desperately needed in the current field of highly abstract economic theory is some solid, controlled experimentation.

I must conclude that Brookes was caught reaching in an apparent effort to support "parental-option plans" in his education-reform "debate" with what he labeled the "education monopoly." I do agree with Brookes that education must be viewed as survival for the modern world, a functional value to the culture—helping Caesar keep society in good working order.

B.J. Paschal  
Muncie, Ind.

I found the October commentary by Warren Brookes to be an extremely valuable analysis of some key research that should motivate our educational leadership to take timely, decisive action.

A concern arising from my involvement in attempts to improve education is based on the analysis that efforts to reform, redesign, or restructure U.S. education are confronting what Robert Branson of Florida State University calls "the upper-limit hypothesis." In short, his hypothesis holds that efforts to improve education within the current operational model can yield no more than 2 percent to 3 percent improvement and that the investment required to achieve that minimal gain would represent decreased return and productivity.

A fundamental change in the nature of the educational-delivery system will be required if our investments are to yield productivity gains. That change



will require thoughtful, systemic application of technology and telecommunications, as has been the case for all other U.S. enterprises that have survived the transition from a physical-goods economy to an information economy.

Indeed, the educational enterprise is the original "knowledge industry" and should be at the forefront of applying technologies to enhance what Brookes points out as the essential factor for U.S. productivity gain—"the knowledge factor."

*Gregory M. Benson Jr.*  
Director  
New York State  
Education Department  
Albany, New York

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*Stanley H. Stearman*  
Executive Vice President  
National Society of  
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Alexandria, Va.

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*Dennis N. McLellan*  
Regional Sales Manager  
Matthew Bender & Co. Inc.  
Winter Park, Fla.

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*New York State*

*Education Department*

*Albany, New York*

## To Sell Or Not To Sell

Mark Stevens' article "Selling Your Firm May Hike Your Pay" [September] has a major flaw in its analysis. His example of the owner of a company [fictitious entrepreneur Smith] who makes \$125,000 per year and is actually receiving less than he would if he were to sell his business does not take into account any of the profits that the business may have generated.

If the company is worth \$5.8 million, surely it must be generating a substantial profit. To say that holding onto the company is costing Smith \$200,000 per year is to say that a business worth \$5.8 million is not making any money at all.

A rule of thumb in determining the sales price of a business is five times yearly earnings. Using the formula, Smith's business would generate \$1.16 million a year in profit. As sole owner of the business, Smith could take some of the earnings in the form of a dividend. This would cost him extra dollars in taxes, but he'd have a much larger income than from selling the business.

*David B. Clapp III*

*Carbonic Products*

*Santa Fe Springs, Calif.*

## Litigation Publications

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*Executive Vice President*

*National Society of*

*Public Accountants*

*Alexandria, Va.*

## The Ills Of Health Care

Your otherwise well-researched and thoughtful September cover story, "Curbing The High Cost Of Health Care," failed to consider the virtual monopoly of the health-care industry by the American Medical Association.

While ostensibly protecting us from quackery, our overregulated health system certainly drives up costs. It is hard to believe that we are so deluded by the myth of a risk-free society that we are afraid even to ask the questions.

How much training is really necessary to diagnose and treat a strep throat, stitch a cut, deliver a baby, set a broken bone? Let's find out, then let the patient have a choice.

A strong dose of free enterprise will bring down the fever of health-care costs.

*Peter V. Meyers*

*Green Lane, Pa.*

Fifty years ago, a visit to the doctor cost \$1, and the doctor's visit to the home cost \$2. Today, health-insurance premiums can cost as much as \$17,000 per year, even though most people never get sick.

Millions of people work 9 to 5 processing medical claims in the offices of doctors, hospitals, private businesses, government agencies, and insurance companies. Their pay does nothing but add to the cost of medical care.

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## WOMEN ENTREPRENEURS

### Women Declare Global Partnership

January marks the official start of the "Decade of International Partnership," launched recently by Les Femmes Chefs D'Entreprises Mondiales (FCEM), or Women Entrepreneurs of the World.

At ceremonies this fall in Washington, D.C., and in Toronto, women business leaders from 23 countries signed a "declaration of international partnership" addressing five areas of concern: education, enterprise, innovation, communications, and environment. Signing from the U.S. was Carey Stacy of Raleigh, N.C., president of the National Association of Women Business Owners, FCEM's U.S. affiliate.

The declaration committed FCEM's 30,000 members "to policies that enhance economic growth for all the nations of the world." The section on enterprise pledges members "to foster international business and cultural exchange." The declaration was the idea of Marcia Wieder, president of Wieder Enterprises, a Washington marketing and public-relations firm, and president of NAWBO's Capital Area chapter. She says the national organization took the lead in initiating the worldwide project.

At a news conference in Washington,



PHOTO: © T. MICHAEL KEZA

*Promoting partnership among women business owners worldwide: Maria Grazia Randi, Marcia Wieder.*

FCEM's world president, Maria Grazia Randi of Italy, said the declaration promises "to create a worldwide spirit and environment for the sharing of economic and political power."

Said NAWBO's Carey Stacy: "What we're doing now is building relationships across the waters, and it's very easy, therefore, to pick up the telephone when trade issues come up."

For more information, contact NAWBO at 600 S. Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465.

## CHILD-CARE DEDUCTIONS

### Employer Guide On Support Payments Is Available

A guide for small-business employers who may receive orders to deduct child-care support from employees' pay is available from the Department of Health and Human Services. The publication, *Wage Withholding for Child Support: An Employer's Guide for Small Business*, was issued in connection with a federal/state program, effective next November, for collecting such payments. The guide outlines the legal responsibilities of employers who receive notice from state governments to deduct earnings for child support. Among the key points:

- An employer who discharges or disciplines an employee—or who refuses to hire a person—because the individual has been named in a collection order is subject to state fines.

- An employer who fails to withhold the amount specified in the state notice is liable for the full amount.

- It is the responsibility of the state, not the employer, to inform employees of withholding notices. Workers have an opportunity to contest the state ruling.

Because specific rules will vary from state to state, the HHS guide concentrates on the federal aspect of the collection program. However, it provides telephone numbers of state officials whom employers can call for answers to questions.

For a single, free copy of the guide, write to the Department of Health and Human Services, Family Support Administration, Aerospace Building, 370 L'Enfant Promenade, S.W., Washington, D.C. 20447; Attention: OCSE/POD. For 100 or more free copies, write to Child Support, Pueblo, Colo. 81009.

## LAW

### Take Care With White-Collar Exemption

Many employers are not aware that their pay policies could jeopardize their employees' exemptions from federal wage-and-hour laws, according to Venable, Baetjer & Howard, a Baltimore law firm that does much work on labor-management issues.

An employer can obtain exemptions for salaried workers holding supervisory and administrative responsibilities. Making deductions from the salaries of such workers can jeopardize the exemptions, however.

Venable, Baetjer & Howard says in a report, *Workplace Labor Update*: "Because it is essential for an employee to be paid 'on a salary basis' in order to qualify for the white-collar exemption, the employee must normally receive his or her full salary for any week in which work is performed regardless of how many days or hours were actually worked, so long as the employee actually performs some work during the given work week."

## BENEFITS

### Why Cafeteria Plans Are Lagging

If you are interested in switching your company's traditional benefits program to a cafeteria-style plan but you're afraid of the potential administrative tangle, you are not alone.

More than 62 percent of benefit managers at midsized companies without cafeteria plans say they think such plans are desirable alternatives to traditional plans, according to a national survey by Atlanta-based Confederation Life Insurance Co. The major reason they don't switch appears to be fear of potential paperwork headaches.

Among companies without cafeteria plans, 54 percent of benefit managers think the plans are hard to administer. But only 25 percent of the managers experienced in handling such plans—37 percent of the surveyed companies have them—say the plans do cause administrative problems.

Under a cafeteria plan, employees choose the types and amounts of benefits they want, subject to a cost ceiling set by the employer.



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## INTERNATIONAL

**SBA Plans Trade Fair In Seattle**

The Small Business Administration will host the U.S. government's largest, most diverse trade-promotion event ever for small and mid-sized exporters, March 27-30, in Seattle.

The event, Export Expo 1990, will include a trade fair for U.S. manufacturing and service businesses, workshops for obtaining how-to and trade-policy information, and a match-up service that will seek to link domestic producers with foreign buyers. The SBA says it is promoting the trade fair and match-up service heavily abroad and expects good attendance by foreign buyers and sales agents.

The event will be limited to 350 companies, and the SBA says not many openings remain. The registration fee is \$450, which includes a fully constructed 100-square-foot booth at the trade fair. To register or to obtain more information, contact the U.S. Small Business Administration, Office of International Trade, 1441 L Street, N.W., Washington, D.C. 20046, or call 1-800-368-5855.



PHOTO: © BILL ROSS—WOODFIN CAMP

## REGULATION

**Changes Sought In Regulatory Law**

Small business has not reaped the expected benefits from the Regulatory Flexibility Act, a representative entrepreneur has told Congress. Glenn Cahilly, executive vice president of Lancaster Laboratories Inc., in Lancaster, Pa., commented to the Senate Small Business Committee in testimony on behalf of the U.S. Chamber of Commerce. He pointed out that Congress had enacted the regulatory-flexibility law in 1980 "to ensure that federal regulations would not unnecessarily or disproportionately burden small businesses."

Among other things, the law requires that the federal government review proposed regulations to determine whether maximum flexibility has been allowed to accommodate small businesses' particular concerns, such as reporting, record-keeping, costs, and other requirements of compliance.

Nevertheless, Cahilly pointed out, the cumulative impact of federal regulations continues to pose "unnecessary burdens" on smaller firms. "Today," he said, "more than 100 federal agencies maintain thousands of regulations that have an enormous impact on how we live and what we do." Proportionally, he added, the cost of regulatory compliance for small firms is nearly three times that for large firms.

In urging amendments that would reinforce the law's original intent of easing the small-business impact of regulations, Cahilly recommended a broader

role for the Office of Information and Regulatory Affairs in overseeing the analysis of regulations issued by individual agencies.

Cahilly also urged that the same office be empowered to develop guidelines for waiving the requirement that regulations be analyzed for small-business impact.

**THIS MONTH'S NB TIPS****Small-Business Conference**

✓ The 10th National Legislative Conference on Small Business Issues, sponsored by the U.S. Small Business Administration, will be held Dec. 11-13 at the Fairmont Hotel in San Francisco. While the meeting is designed for government officials and lawmakers whose decisions have an impact on small business, entrepreneurs and others interested in small-business policy at state and local levels are also invited to attend.

Workshops cover such topics as workplace literacy, mandated health benefits, environmental programs, family and parental leave, international trade opportunities, and rural development.

For information, contact the Office of Advocacy, U.S. Small Business Administration, 1725 I Street, N.W., Washington, D.C. 20416; (202) 634-6115.

**Standard On Hazards**

✓ The U.S. Chamber of Commerce has a new pamphlet, *How To Comply With*

## VENDING

**New Campaign For Issuance Of \$1 Coin**

The vending-machine industry, made up mainly of smaller businesses, is pressing Congress to approve a \$1 coin in recognition of inflation's impact on the products sold through its machines. Bills before the banking committees of Congress would authorize a dollar coin bearing a likeness of Christopher Columbus.

Any proposal for a dollar coin runs head-on, of course, into the debacle of the Susan B. Anthony coin, first issued a decade ago. It never was accepted by the public, a development attributed to the alleged difficulty of distinguishing it from a quarter. Its size was between that of a quarter and a half-dollar.

The current approach calls for the \$1 coin to be the same size as the Anthony coin but gold-colored and smooth-edged to distinguish it from the quarter.

Richard Funk, chief counsel for the National Automatic Merchandising Association, says success of a \$1 coin requires phasing out the \$1 bill. Failure to take that step doomed the Anthony dollar, he says.

Funk rejects arguments about confusion with the quarter: "The Susan Anthony coin was never circulated, and there was no opportunity to confuse it with the quarter."

Congressional action on the coin measure is expected to begin in the Senate Banking Committee, but the bill under consideration does not provide for phasing out of the paper dollar.

*The OSHA Hazardous Materials Standard Rules.* It discusses the Hazard Communication Standard, which applies to U.S. employers. The standard is an updated version of the Occupational Safety and Health Act of 1970, which requires employers to furnish a workplace free from known hazards and to meet certain standards for employee health and safety.

The standard is not a strict directive. Instead, it allows employers to develop programs suitable for their needs around general guidelines of performance goals and minimum requirements. The brochure explains the types of companies that must comply with the standard, the compliance requirements for employers, the penalties for non-compliance, and how to determine hazards.

To order, call Publications Fulfillment at 1-800-638-6582. In Maryland, the number is 800-352-1450. Give order number USCC-2011.

There is no charge for orders of fewer than 100 copies. For 100 copies or more, the charge is 10 cents for each additional copy. **NB**





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# Dateline: Washington

*What's happening in the corridors of power that will affect your business.*

## GOVERNMENT

### Congressional Action Urged To Cut Health Costs

Small companies are being squeezed out of the health-insurance market by rapidly rising costs and shrinking ac-



PHOTO: © TERRY ASHE

Robert E. Patricelli represents the U.S. Chamber at a House hearing.

cess to coverage at any price, business spokesmen warned during a recent congressional hearing.

About 35 million Americans lack health insurance; two-thirds are full-

time workers or their dependents. While small-business groups strongly oppose government-mandated coverage of all workers, there is a growing consensus that there is a role for Congress in eliminating barriers that the federal and state governments have erected to adequate coverage. Speaking on behalf of the U.S. Chamber of Commerce, Robert E. Patricelli, president of Value Health Inc., an Avon, Conn., managed-care company, recommended that Congress take the following steps:

- Give companies that buy their health insurance the same exemption from state-mandated coverage requirements that self-insured company plans already enjoy. This would allow insurers to offer more affordable plans.

- Allow self-employed individuals and unincorporated firms the same 100-percent federal tax deduction for their health-care costs currently allowed larger, incorporated businesses. Self-employed individuals and unincorporated firms are now limited to a 25-percent deduction, which some say discriminates against small business.

- Simplify the complex federal laws governing multiple-employer trusts, which permit small businesses to join in purchasing health insurance at lower rates than they would have to pay as individual firms.

## SOCIAL SECURITY

### Payroll Taxes Will Go Up Jan. 1

There will be a double-barreled increase in Social Security taxes next year. The tax paid by both employer and employee will go to 7.65 percent from 7.51 percent. The wage base—the maximum amount of earnings subject to the tax—will be increased from \$48,000 to \$50,400.

For the self-employed, the tax remains the combined total of an employer/employee contribution—15.30 percent next year on the same wage base.

To ease the impact of that rate, the self-employed had been allowed a credit of two percentage points against their Social Security payments, but a new arrangement goes into effect in 1990.

Half of the Social Security taxes paid by the self-employed will be tax-deductible, with an individual's tax bracket determining the amount of the savings.

The tax-rate and wage-base increases are going into effect under provisions of a 1977 law passed to keep the system solvent.

The forthcoming rate increase will be the last of seven such increases that are scheduled in the law, but the wage base will continue to rise annually according to increases in the average wage.

## COPYRIGHTS

### Bill Targets Copyright Infringement By States

States, their public universities, and other state entities could be sued for copyright infringement, under a bill passed by the House of Representatives and sent to the Senate.

States and their instrumentalities are now exempt from such suits as a result of federal court decisions.

In urging passage of the bill to remove that exemption, Rep. Robert W. Kastenmeier, D-Wis., said that present policy denies copyright holders the statutory damages and attorneys' fees they can claim in infringement suits against parties that do not enjoy the states' current immunity.

"These kinds of recoveries are often essential to protect the rights of individual authors and small entrepreneurs," Kastenmeier said.

## PRODUCT LIABILITY

### A Brighter Outlook For Product-Liability Reform

Growing bipartisan support for a uniform federal product-liability law was reported by the legislation's chief House sponsor, Rep. Thomas A. Luken, D-Ohio.

Luken's bill would establish uniform rules and would clarify rights and responsibilities in lawsuits against product manufacturers, distributors, and sellers.

Its supporters contend it would end the current confusion caused by each state setting its own rules, based on separate state laws and often-conflicting court interpretations.

The adoption of a uniform federal product-liability law is widely supported by business groups, including the U.S. Chamber of Commerce.

Luken's bill is patterned after a simi-

lar measure that cleared the House Energy and Commerce Committee in the last session. That bill died in the Judiciary Committee, through which Luken's bill also must pass on its way to a vote by the full House.

Luken said the Energy and Commerce Committee, of which he is a senior member, is insisting that Judiciary "take the lead" this time around. Luken said the new Judiciary chairman, Jack Brooks, D-Texas, "doesn't have the same antipathy toward it" that his predecessor, Peter W. Rodino, D-N.J., had shown. "The best promise we've had is that they will" hold legislative hearings on the measure "in January."

Luken discussed the product-liability issue before the Breakfast Bunch, an informal organization of Washington-based corporate representatives organized by the U.S. Chamber of Commerce. **B**



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# To Make The Grade, Just Go Do It



By Curtis Grant

**A** course for entrepreneurship majors that I took last semester at Baylor University, in Waco, Texas, offered many lessons, but the primary one for me can best be described in the words of an advertising campaign for Nike Inc.: "Just Do It!"

I am sure most Americans at some time dream about owning a business. I often hear people talk about starting one, and I also hear excuses: They don't have the time or money to get started, or they can't give up their job security, or their idea is probably one that somebody else has already thought of. Such people seem to be waiting for some magical moment that may never come.

That kind of moment did come for me, although I admit that I didn't simply decide to "just do it." It was an assignment. The entrepreneurship course at Baylor required that teams of students start business ventures, and the grades for their efforts were based on soundness of ideas and management.

Three other young men and I formed a company that developed and marketed what we called the "Pocket Roster"—a directory of names and phone numbers of members of sororities and fraternities on campus. Small enough to fit in a wallet or purse, it would be a boon to students unable to consult existing rosters, which were too bulky to carry, or to get current numbers from the phone company's directory, which can't keep up with students' frequent moves.

At first, our roster was to be a folded sheet with three credit-card-size sections. Two advertisements could be sold to cover some of the printing expense. Selling the roster itself would cover the rest of the costs and, we hoped, would give us a profit.

Fortunately, we stopped to figure out how much revenue we needed to break even. As a result, we changed to six credit-card-size sections, with room for five ads. Also, we targeted only 10 fraternities and sororities instead of all 24 on campus—after concluding that several clubs were too small to provide worthwhile markets.

We discovered lessons in every decision. Among them: **Initial capital is hard to find.** Being college students, we didn't have much money to invest. Advertising was our only source of outside funds, and roster production didn't begin until we sold three ads for \$200 each.

**Pricing is important.** We sold the rosters for 50 cents each, a figure based on no tangible information. Later, after several customers told us they would have paid \$1 apiece, we wondered if we should have charged more.

**Publicity can be useful.** Our company contacted the Baylor student newspaper and received free exposure in a front-page article that quickly helped make our target market aware of our product.

**Be skeptical of spoken assurances.** A printer gave us

an inaccurate price quotation and also missed the promised delivery date. The printing of the rosters was finished several weeks behind schedule.

**Timing is crucial.** The product was more popular than we expected, but we could not bring it out until late in the semester, which cut our selling time.

**Personal selling skills are vital.** You wouldn't believe how much I was shaking when I walked into that first campus meeting to present our product. I faced more than 100 people waiting for me to talk. Would they laugh at me and at the idea? Or would they buy the product? They bought—50 rosters!

**Nothing can replace preparation.** Because we didn't always do research, we made decisions that we later wished we could reverse. For example, the last advertiser we dealt with wanted white printing on a black background. We agreed to the request without first checking the cost of the special printing, and we lost money on the ad.

The primary lesson we learned through the experience is that even if you have the world's best business idea, it will do you no good unless you act on it. To paraphrase an adage, people who want milk should not sit on a stool in the middle of a field in hopes that a cow will back up to them.

Although our small venture had a high profit margin, it did not earn us a lot of money. We had \$430 in net profit on \$1,450 in gross revenue. We sold 1,300 rosters and four of our five ad spots—to a gift shop, a clothing store, a dry cleaner, and a retailer of electronic products. Yet

there were benefits that can't be measured in money.

First, I had the satisfaction of knowing that of the eight class ventures, ours was one of only two that didn't lose money. In addition, I received a respectable if not optimal grade in the course—a B-plus.

And how proud I felt each time I saw a student using one of our rosters!

Most important, however, were the lessons my partners and I learned about running a business. I expanded our enterprise into University Products Co., which produces Pocket Rosters for marketing at major colleges throughout Texas, and they went their separate ways. Although we are no longer together, we still share what we learned, which starts with the knowledge that success is possible if you "just do it." ■

*Curtis Grant, 23, receives a bachelor's degree in business administration this month from Baylor University, in his hometown of Waco, Texas.*

*Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.*

*Even if you have the world's best business idea, it will do you no good unless you act on it. . . . people who want milk should not sit on a stool in the middle of a field in hopes that a cow will back up to them.*



# Making It

*Growing businesses share their experiences in finding and marketing new products and services.*

## Winning In A Walk

**A**s thousands of young people—and some who are just young at heart—jump, slide, climb, or bounce on Space Walk Inc.'s creations, their smiles and giggles present indisputable evidence that the 30-year-old company's registered trademark, "Here comes fun," is no idle boast.

Space Walk makes air-inflated vinyl rooms with billowing floors. Walking on them calls to mind the way astronauts look when they are walking in space while tethered to their modules—hence the company's name. Space Walk products beckon fun seekers in most major amusement parks in the U.S. and several foreign countries. One of Space Walk's biggest efforts, the Space Pillow at Houston's Astroworld, is the second most popular attraction at that park (a roller coaster is first).

Smaller Space Walk models turn up in back yards and at festivals in many Sun Belt cities. "Hundreds of birthday parties, school and church fairs, grand openings, and other events are enlivened by Space Walks every week," says Frances Carr Scurlock, coordinator of the company's 25 rental franchises.

Frances Scurlock's husband, Space Walk President John T. Scurlock, 62, is an electrical engineer who holds patents on six inventions. He came up with the idea for Space Walk in 1959, while watching his employees jump on partly inflated air-bubble domes. Scurlock invented the domes, which are used as covers for tennis courts and swimming pools, and was making them as a sideline to his full-time job as a college teacher. Space Walk Inc. still manufactures such vinyl covers at its suburban New Orleans plant.

Three of the Scurlocks' four sons are active in the family business (the oldest

son has left the company and is now a computer programmer). Steven, 35, supervises the production room, where yards of vinyl materials are sewn into air domes, Space Walks, and other air-inflated creations, such as the cartoon-character and beer-can balloons displayed in many parades. Jeffrey, 31, is in charge of the tent division, a full-service rental agency that supplies tents, chairs, flooring, catering, light-

ing, and entertainment for weddings and other outdoor gatherings.

Frank, 27, the Scurlocks' youngest son, and his wife, Patty, operate the Fun Factory, an indoor amusement park designed by Frank. The 18,000-square-foot building in New Orleans has a rotating stock of several dozen soft play devices.

"Fun Factory has been successful from the beginning," says Frank, "even



PHOTO: JACKSON HILL

*In a bouncy Space Walk room, the firm's family: Patty and Frank Scurlock seated with son Mials; standing, Frances Scurlock, son Jeff, President John Scurlock, son Steve.*



## MAKING IT

though we opened three years ago in the middle of New Orleans' economic downturn. It grossed \$500,000 in 1988." (The Scurlocks will not reveal gross revenues for the company as a whole.)

Some of Space Walk Inc.'s products are used in more serious circumstances. "We make a rescue cushion called Air Pack that inflates in two minutes," says John Scurlock. "Air Packs are used in most major cities in the United States, and in several foreign countries, to prevent suicide attempts and rescue people when fire forces them to jump from tall buildings." The huge air pillows also break the falls of stunt crews who jump out of buildings in movies such as "The Towering Inferno."

Other industries employ Space Walk creations in a variety of situations. Shipbuilders like New Orleans' Avondale Shipyards protect steel machinery from the elements with Space Walk air domes until time for installation. The same principles used to form an air-inflated tunnel for the Fun Factory were employed in manufacturing a larger chute that makes transferring people from a ship to an offshore oil rig safer when seas are rough.

Space Walk's five divisions in New Orleans employ 20 full-time and 35 part-time workers—and the Scurlocks keep coming up with new products.

Pointing to a metal box and tube attached to a five-gallon bottle of spring water sitting on his office floor, John Scurlock explains his latest invention. "This little gadget, the Aqua Lift, is going to save a lot of backache," he declares. "Customers of spring-water companies will not have to lift heavy bottles any more because the Aqua Lift sucks water from the bottle and passes it into the dispenser." The Aqua Arc, a sister apparatus, funnels spring water into refrigerators equipped with spigots for dispensing cold water.

Frank Scurlock's year-old son inspired the design of a 5-foot-square playpen. Frank and Patty say that the playpen provides a safe environment and requires no assembly; it is—you guessed it—inflatable.

—Mary Fonseca

## From Sawdust To Sawbucks

**A** Bealeton, Va., company is turning sawdust and other waste wood into pellets that may persuade thousands of homeowners in the Northeast to say goodbye to their axes and chain saws this winter.

Modular Energy Co. says its oak pellets are cleaner, more convenient, and cheaper to burn than cordwood. "The

average homeowner burning our product around the clock will spend only \$3 a day during the heating season," says Jack Warf, 50, MEC's president.

Warf claims that one ton of pellets can produce heat equivalent to that produced by a cord and a half of firewood. The firecracker-sized pellets sell at retail for \$130 to \$160 a ton, versus about \$200 a cord for firewood.

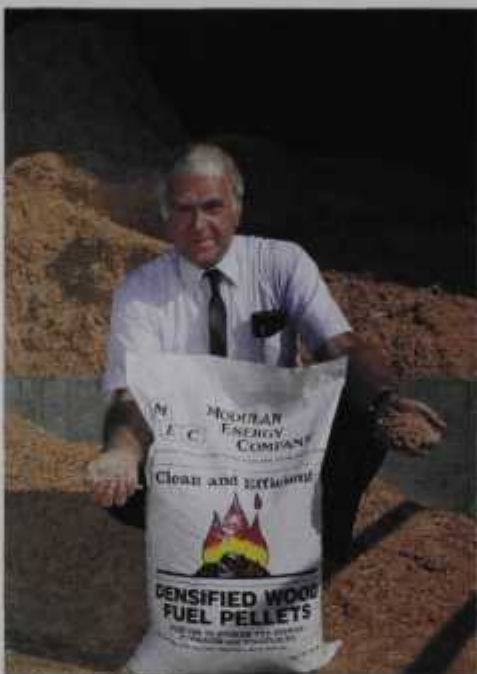


PHOTO: © ROSS W. SIMPSON

Wood scraps and sawdust are turned into fireplace fuel pellets by Jack Warf's Virginia-based company.

"What's more," says Warf, "wood pellets are much cleaner than cordwood. They don't leave telltale dust on tables, and contain no creosote to foul up your chimney."

Popular for years on the West Coast, wood-pellet stoves have been slow to make their way east. The stoves range in price from \$1,400 to \$2,500—a few hundred dollars higher than their wood-burning cousins, but Warf says their convenience is worth the extra money: "No more huffin' and puffin' while cutting, stacking, and hauling firewood into the house." MEC packages its wood pellets in 40-pound plastic bags.

From the outside, pellet stoves look a lot like wood stoves, but there's a world of difference behind the glass doors. For one thing, instead of getting up in the middle of the night to feed your wood stove, you can let the pellet stove feed itself automatically, for as long as two days. This insures cleaner combustion and uniform heat output. Once its hopper is filled, a pellet stove needs no more attention until the removal of a minimal amount of ash.

MEC makes its pellets in a "pelletizer" of the kind used to produce animal

feed. To make the pellets, sawdust is forced under pressure through 3,000 openings in a circular die. Sawdust that fails to make a pellet on the first try is collected and fed through the "pelletizer" again, until every ounce is made into a usable product.

Waste wood of the kind used to make the pellets "could contribute to overcrowding at landfills and contaminate water supplies if left on the ground to rot," says Don Beasley, 58, a chemical engineer who is MEC's vice president. Most states no longer permit the dumping of waste-wood scraps or sawdust on open ground. Woodmark, a cabinetmaking firm in Orange County, Va., supplies Modular Energy with waste wood.

Warf, Beasley, and some other investors formed MEC and built its \$1-million pellet-making plant last year. Warf, a native of West Virginia who once was a Washington, D.C., firefighter, owned a landscaping firm in suburban Washington and then a coal-mining company in West Virginia before he and Beasley met, about 10 years ago.

Then, Warf was exploring the possibility of selling coal in bags to the residential market, and Beasley was running a large North Carolina plant, owned by the Pullman Corp., that made wood pellets for the industrial market. They talked about opening a pellet plant in Virginia, but with the decline in oil prices, the industrial market for wood pellets dried up.

Their idea sat on the back burner for a few years, while Warf pursued other energy-related businesses and Beasley worked for a consulting firm. Then, in the mid-1980s, after the pellet-burning stove was introduced, Warf started pulling together the financing for MEC. "Jack has really been compelled to be in this business," Beasley says. Today, Beasley and plant manager Chuck Satera run the company day-to-day at Bealeton, while Warf works out of an office in nearby Manassas.

Warf and Beasley "are sitting on top of a gold mine," says Fred Griffin, national sales manager for Sierra Manufacturing Co. of Virginia, a Harrisonburg, Va., firm that is one of the nation's leading wood-stove manufacturers. "Retail stores have been waiting for years for a reliable supplier of wood pellets, and MEC is the sole source on the East Coast."

The Bealeton plant can produce 25,000 tons of wood pellets a year without major alterations. But with sales expected to top \$2.5 million this year, the plant may be running at capacity by the end of the heating season. Jack Warf is already talking about building more plants in Virginia and neighboring states.

—Ross W. Simpson





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## MAKING IT

## The Man With The Hammer

**J**im Gall is an outgoing, likable fellow who radiates self-confidence—and as a professional auctioneer, he often needs it. When he faces an audience and breaks into his mesmerizing, rapid chant, he has to believe he can sell anything.

Gall's unconquerable optimism has helped propel him to the top rungs of his profession. A born entrepreneur—"I've been selling something or other since I was 6 years old"—Gall made a couple of turns around the well-worn business path of start-up, high hopes, and disappointment before a crucial self-analysis led him at 33 into the burgeoning field of auction marketing.

That was 10 years ago. Today, Gall's services are sought internationally by real-estate developers, lenders, and government agencies that want to move luxury, hard-to-sell, and foreclosed properties in a hurry without taking a financial beating.

His Miami-based Auction Co. of America, which he founded in 1979, is among the largest auction houses specializing in real estate. Its 35-member staff has conducted major property auctions in 32 states and several foreign countries.

This year the firm expects to sell about \$175 million worth of almost every kind of real property—from entire communities to a 17th-century French chateau. In 1988, the company auctioned \$100 million in properties, and the year before that, \$50 million. The firm's commissions on gross sales vary from 5 percent to 10 percent.

Gall's privately held business is prospering on a trend that began in the early 1980s. That's when lending institutions, in particular, discovered auction marketing as an effective way to move the huge inventories of defaulted properties that accumulated with the collapse of the oil and real-estate booms in many parts of the U.S.

What surprised many sellers about the auction process was not so much how fast they could move properties as the prices they got—in most instances near the appraised value. Very little of the property sold at auction had to be unloaded at bargain-basement prices.

Before he discovered auctioneering, Gall spent much of his life in search of just the right business. After college and a brief stint with the Du Pont Co., he decided that corporate life was not for him, and he and a partner started an office-supply firm. But Gall yearned for something more satisfying.

He thought he found it in "scratch 'n'

sniff" T-shirts, an idea he conceived upon hearing about a new method of applying artificial aromas to paper, cloth, or other material. Scratching the material would release whatever scent had been applied. Calling his company Smell It Like It Is, Gall made up some shirts with the aromas of root beer, pizza, orange, and strawberry, and he sent them to a host of entertainers and

on the road to gaining that critical but elusive experience.

More jobs came along. He sold cars, antiques, and surplus goods—everything from a chair shaped like a baseball mitt to a wax statue of Richard Nixon. Honing his showman's skills, he dressed for auctions in a tuxedo and ferried clients around in a limousine.

Gradually, Gall began to see real es-



PHOTO: © RICK FRIEDMAN—BLACK STAR

**With unconquerable optimism and a flair for the distinctive chant of his profession, Miami auctioneer Jim Gall moves real estate, such as this Chatham, Mass., development of town houses and commercial properties.**

media organizations. The product sold well for a while, but then the fad died.

That's when Gall accorded himself a serious self-examination. "I hadn't really found my niche," he recalls. "I prayed that I'd find a business that would allow me somehow to use the talent God gave me. The answer hit me like a ton of bricks: auctioneering."

In a two-week course that Gall describes as "Auctioneering 101," given at a school in Kansas City, Mo., Gall learned how to combine words and numbers in that special way that is known as the auctioneer's chant.

The hardest part came next. The field is a tight, highly competitive one. For clients, an auction is a one-time opportunity to realize top return, and they usually look for highly experienced auctioneers with proven track records.

"I literally knocked on doors looking for a chance," Gall says. "Every time I heard about a sale or even a possible sale, I went out looking for the job." That persistence paid off. He made a cold call on a North Miami store that was going out of business, and the owners agreed to let him auction off the stock and fixtures. That job started him

tate as "the real future of auctions." Since 1982, his Auction Co. of America has handled only real-estate sales. His big break came in 1986 when the Federal Deposit Insurance Corp. chose his firm to auction 445 foreclosed properties in Lafayette, La. "We sold 430 of those properties at 80 to 100 percent of appraised value in two days," Gall says. That performance won his firm a letter of commendation from the FDIC—and access to other government and private auction opportunities.

The company has now sold at auction some 12,000 pieces of property. Ahead, Gall sees nothing but more growth for his company and for auctioneering generally. He believes the future of real-estate auctioning is assured by, among other reasons, the government's plan to sell off \$100 billion, perhaps more, in assets of failed savings-and-loan institutions. Gall was instrumental in persuading Congress to allow some of those assets to be sold by the auction process. "It will be the largest sale of real estate in the history of the world," he says, "and we want to be a part of it."

—Donald C. Bacon



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# Memories For Sale

By Michael Barrier



PHOTO © WAYNE SORCE

**J**ohn T. Johnston's store lies in the Bay Ridge section of Brooklyn, an hour's subway ride from Manhattan. Toys and knickknacks pack the front window—gum-ball banks, Howdy Doody watches, a statuette of the RCA Victor dog. But Johnston's real business is not selling toys for children. He stocks such items so Dad can pacify his kids while he buys his own grown-up toy. A very expensive grown-up toy, one that bubbles and changes colors and sings "Johnny B. Goode" or "Wake Up Little Susie." John T. Johnston rebuilds and sells old jukeboxes.

To get into his store, Jukebox Clas-

*The Wurlitzer 1015, center, from the '40s is the jukebox "everybody takes off on," says John T. Johnston, who with his wife, Wendy, owns Jukebox Classics in Brooklyn.*

sics, you have to press a buzzer; Johnston doesn't encourage browsers. And he doesn't need to. "A lot of people buy without even looking," he says. "They just call, and we ship to them."

Johnston, 47, sells to people like George Sideris, 42, a hotel owner who lives in Marlton, N.J., near Philadelphia. Sideris bought his first jukebox—a Wurlitzer 1015—from another dealer

eight years ago. He wanted to furnish a bar in his home, Sideris says, and "I just felt a jukebox was appropriate."

Johnston calls the 1015 "the bubbler" because of the bubbling columns of liquid that frame the front of the machine; it is, he says, "the main one everybody takes off on." Wurlitzer made 56,000 "bubblers" in 1946 and 1947; Johnston estimates that perhaps 10,000 survive.

He relies on word of mouth for his customers, and Sideris heard about Johnston a couple of years ago. Since then, Sideris has bought five more classic jukeboxes from Johnston—four Wurlitzers and a Seeburg—and displays all six in two rooms in his house.



*As the baby boomers trudge into middle age, businesses large and small are inviting them to look back fondly at their younger days.*



PHOTO: © JIM CHAPPELL

For all the attention focused on the 1015, Sideris says, he prefers the looks of the Wurlitzer 800, made in 1940—"it's a real massive machine."

The 1015 is, however, considerably more expensive. You probably could find a restored 800 for around \$8,000, but if you wanted to buy a like-new 1015, you could expect to pay \$13,500 for it—and, Johnston says, the price has been going up \$1,000 a year.

For your \$13,500, you would get something less than a state-of-the-art sound system. The 1015, like the other jukeboxes made in the '40s, plays only 78 rpm records, and, Johnston says, "the old ones are temperamental."

**Elvis Presley** bought this 1955 pink Cadillac for his mother. Now it's the centerpiece of the new automobile museum at the late singer's Memphis estate, Graceland.

George Sideris agrees, but, he says, the old Wurlitzers are relatively easy to work on; "you can get into them and figure them out." When his Seeburg conked out, he had to send it back to Johnston for repairs.

As for the records, you can buy used 78s—at prices ranging from 25 cents to hundreds of dollars—from a handful of dealers like Morton Savada of Records

Revisited in New York; 78s didn't expire completely until the late '50s, so early rock 'n' roll records can be found in that format. Or you can buy new 78s. Rhino Records has issued two sets of them, one each of songs from the '50s and '60s, complete with printed title strips to fit in the slots on the front of your jukebox. A box of 25 records—50 songs—will set you back \$125, or five times as much as you might pay for the same songs on a couple of compact discs.

If you're really interested in saving money, consider that for about one-third the cost of an original Wurlitzer 1015, you can buy a reproduction that



## COVER STORY

plays 45 rpm records, has stereo sound, and doesn't break down as often, if ever. Johnston started selling reproductions last year, but the old "jukeboxes" still account for 75 percent of his sales, and Johnston himself isn't much interested in the new machines. He started his business because he and his wife, Wendy, 44, love old jukeboxes—they have four at home—and he finds the new versions somehow lacking. "I think they're great boxes for what they are," he says, "but I'm still a purist. I don't have a reproduction at my house."

However good a reproduction jukebox may look and sound, it has one

gia is *always* sweeping the country; there is *always* a nostalgia boom. From year to year, the only difference lies in who is feeling nostalgic about what.

Most people, as they approach middle age, sense that their lives have settled into patterns that may not change significantly for many years to come. They look back longingly at a time when youth seemed endless and opportunities boundless. We are now at a peak in the nostalgia cycle because so many people are reaching an age when nostalgia comes most naturally.

The oldest of the baby boomers—the 75 million Americans born in the 20

can tap, it originates less in private, personal memories than in the shared memories of a generation.

The baby boomers, it's clear, share particularly strong, fond memories of the popular music of their youth. Relatively few people feel such strong nostalgia for the music that they will pay thousands of dollars to hear it from a period jukebox, but millions will pay smaller amounts to put themselves in touch with the music, and the era that gave it birth, in some other way. Businesses of many kinds are trying to meet that demand, some by appealing almost wholly to nostalgia, others by using nostalgia as one ingredient in a more complex mixture.

Some people do feel a nostalgia as intense, if not as hard on their bank accounts, as that of jukebox owners. One store that serves such people can be found north of Philadelphia, in a strip shopping center in Levittown, Pa., where Ron and Linda Cade do business under the name Memphis Memories. Their stock consists entirely of Elvis Presley items—some new, like a replica of his sunglasses and a miniature of his tour bus, and some available only on the collector's market. Among the latter: bottles of "Always Elvis" wine and "Love Me Tender" conditioning rinse.

His customers come from all over the Northeast, Ron Cade says. "Just yesterday, a family came from Binghamton, N.Y. The Elvis people, they travel." He does a lot of mail-order business, too, some of it with foreigners. His average sale tends to be large; Cade cites one customer who spent around \$250 during one visit, on out-of-print albums, a jacket, a T-shirt, a collector's plate, and an Elvis trivia game.

Memphis Memories is a special sort of business, for a special sort of clientele—people who share the devotion to Elvis that Cade, 37, has felt since 1957, when at the age of 5 he first heard Elvis sing "Hound Dog." The store is as much a clubhouse as a retail establishment. Posters of Elvis cover the walls, Elvis videotapes run constantly on a TV set with folding chairs set up in front of it, and, as Cade says, "we don't have anybody in suits and ties running up and saying, 'Can I help you?' It's a very relaxed, laid-back thing. They know they can come in here and watch Elvis, talk Elvis. They like that, and we like doing that for them."

The store does well enough that the Cades have run it full time for about four years. Cade used to work in radio, and he got the idea for his store while he was hosting an all-Elvis radio show. Listeners called to ask where they could buy Elvis merchandise, and some asked that the Cades buy items for them at Graceland, the Presley man-



PHOTO: © WARREN FAUBEL

**Rhino Records' founders, Richard Foos and Harold Bronson, have built their \$20-million Santa Monica, Calif., company on reissues of rock 'n' roll.**

shortcoming that nothing can remedy: It did not exist in the past that many jukebox owners want to recapture. It cannot fully satisfy the craving that leads people to buy jukeboxes in the first place. "Mostly," Johnston says, "it's to bring back when they were kids."

**N**ostalgia is like sex: Every generation thinks it is discovering it for the first time.

"Nostalgia for the American dreamland is sweeping the country like a Kansas twister," said a national magazine in what may sound like an up-to-the-minute description of the current nostalgia boom—but that article was published almost 20 years ago. Nostal-

years after World War II—are entering their mid-40s. Just as the boomers' numbers generated a highly visible "youth culture" 20 years ago, so they now magnify a middle-aged looking back. For U.S. businesses, already adjusting in other ways to the "graying of America," that nostalgia is one more element to take into account.

Entrepreneurs need to realize, however, that nostalgia can be tricky. It's not the same as enthusiasm for what is old; no one considers an interest in Queen Anne furniture or ancient Egyptian statuary "nostalgic." True nostalgia isn't based on simple admiration for the artifacts of the past, but on living memory of them; and where nostalgia exists in a form that astute businesses



sion in Memphis, which the Cades visit every year.

Graceland has been open to the public since June 1982, and it has become a business of a very different order of magnitude than Memphis Memories. Elvis Presley Enterprises, most of whose income Graceland generates, will tally revenues this year of \$15 million or so. Last year, 660,000 people visited Graceland; this year, the figure will probably top 675,000. Of that number, says Jack Soden, Graceland's executive director, "the vast majority are mainstream Americans, the same people who are going to Walt Disney World and supporting tourism all over."

Still, as Soden acknowledges, "our demographics are skewed from what you'd find at a theme park." Even though the number of teen-agers and young adults has been growing, Graceland's visitors tend to be middle-aged—people who listened to Elvis in the first flush of his popularity, in the '50s and '60s. As Soden (who is 43 himself) says, "There are kids back at the hotel pool while Mom and Dad are here."

When Graceland opened to the public, Soden recalls, there was widespread skepticism about whether it would be successful as a tourist attraction. The feeling was, he says, "a couple of hundred thousand may come, but that'll be it," as what was assumed to be a shallow well of nostalgia for Elvis was drained. The Presley estate spent a little over \$500,000 to open Graceland; it recouped that money in 38 days. Says Soden: "We've been very profitable every step of the way."

If there is a secret to Graceland's success, it may be that Soden and his colleagues have not squeezed too hard on Elvis Presley's nostalgic appeal, but have instead treated him as a figure whose significance transcends nostalgia. As Soden says, "The flavor of the attraction at Graceland doesn't necessarily require an overwhelming interest in Elvis Presley. Right from the beginning, there was a philosophical decision that we'd treat all 14 acres as a historic site, and try to present it and maintain it just as it was."

The straightforward guided tour of the mansion treads a fine line between the twin temptations of oily reverence, on the one hand, and tongue-in-cheek mockery, on the other. (The latter temptation might seem especially severe, considering that the mansion holds, among other things, a grand piano covered in gold leaf, a billiards room smothered in chintz, and the ineffable "jungle room," with its carpeted ceiling and pseudo-Polynesian furniture carved in the shapes of animals; as the tour guides always point out, Presley chose all the "jungle room's" furniture

himself, in a 30-minute visit to a Memphis store.)

The new automobile museum, which opened across Elvis Presley Boulevard from the mansion last summer, holds 20 vehicles, including the 1955 pink Cadillac that Elvis gave to his mother and his own 1956 black Lincoln Continental, both restored to sparkling perfection. Also on view: Elvis's gasoline credit cards. It all might seem a bit much, but the museum is a wittily designed building, with the cars lined up alongside a tree-lined "highway" that encircles a "drive-in theater" (the 38 seats are from '57 Chevys) showing rowdy clips

the customers at Memphis Memories, too. "We sell it all," says Ron Cade, "but Elvis was and is the music. When you hear 'Elvis,' you're not thinking of Elvis's face on a drinking mug, you're thinking of the music." And just how good is Presley's music? Says Soden: "I think time will be kinder and kinder."

About a dozen small companies now specialize in reissuing rock 'n' roll, typically licensing songs from other record companies, and sometimes buying other companies' catalogs outright. Although some of the reissue companies may simply be cashing in on nostalgia, more of them probably owe their exist-



PHOTO: T. MICHAEL REZA

"There's Elvis, and then there's everybody else," says Ron Cade, whose Levittown, Pa., shop, Memphis Memories, specializes in Presley memorabilia.

from Elvis movies. Here, as elsewhere in the Graceland complex, the implicit message is: We think Elvis was important enough that we should give you the chance to examine microscopic details of his life, but if you're not *that* interested, we'll understand.

Soden speaks of treating Graceland as "the record of a career that was a very strong influence on more than music," but it is Presley's music that, directly or indirectly, draws most of Graceland's visitors, and it fills the air at Graceland Plaza, a collection of shops, restaurants, and ticket offices across the street from the mansion. In one restaurant, The Diner, a Wurlitzer jukebox plays only Elvis records.

The music is what matters most to

tence to sentiments like Jack Soden's. Certainly that is true of Rhino Records, the Santa Monica, Calif., company that by general consensus leads the reissue labels in both sales (around \$20 million last year) and recording quality.

Says Harold Bronson, who with Richard Foos founded Rhino 11 years ago: "Sure, a lot of people buy these older records to remind themselves of what they were in high school, but good music is timeless. There's a lot in this older music that you can't get in contemporary music. It's more spontaneous, it tends to be wilder and more inventive, and the lyrics are much better."

Bronson goes so far as to suggest that for many people, nostalgia is not

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# A Business That Outgrew Nostalgia

Twenty-five years ago, news media all over the country began reporting a bizarre phenomenon. Grown men (and even a few grown women) had been seen buying and reading old comic books. "Shazam! Vintage Comics Prices Up, Up and Away," *The New York Times* declared. *Newsweek* reported breathlessly that the June 1938 issue of *Action Comics*, in which Superman first appeared, had become "a \$100 col-

*Comics & Stories* was the third-best-selling periodical in the country—would go the way of the dime novel.

How things have changed. For one thing, *Action Comics* No. 1 is now worth, in mint condition, around \$30,000. But the real surprises have come not from old comics, but from new ones. The comic-book industry has burst out of its Clark Kent disguise and taken on a new vitality, thanks especial-

ly to more adult-oriented versions of characters like Batman and Superman. When the "Batman" movie was released last summer, few if any reviewers were stirred to thoughts of the comic books they read as children; any comparisons were to recent comic books by Frank Miller in which a grim Batman was portrayed as "the Dark Knight."

Steve Geppi's own career illustrates how thoroughly the industry has changed. He has left the basement far behind; now he owns five retail stores bearing the name Geppi's Comic World, with total sales of around \$2 million. But the stores are in fact a minor part of his operation. He is now principally a distributor of comic books and related materials, selling to 2,000 retailers in addition to his own stores; and this year his Baltimore-based company, Diamond Comic Distributors, will gross around \$55 million.

Geppi controls about 45 percent of the "direct-sales" market, in which distributors buy comics from publishers on a nonreturnable basis, for resale to comic-book stores. Traditional retailers like newsstands and drugstores can return any comic books they don't sell. The comic-book stores get bigger discounts by buying on a nonreturnable basis, and they stock any unsold copies as back issues.

These days, Geppi says, the direct-sales market is so profitable for publishers that they put their comic books on newsstands largely to keep them more in the public eye (and so enhance their licensing value). New comic books' prices have risen so much, though, that comics have become attractive again to traditional retailers; the lowest-priced comics now sell for around \$1 each, and many cost three or four times that. In October, a hardcover Batman comic book was published with a \$25 price tag.

Geppi thinks the market could support far more comic stores than now exist. He doesn't plan to open any more himself; he has in fact closed a few of his stores, to reassure his retail customers that he won't undercut them. But, he says, more and more people are entering the field—and not because they are collectors or hobbyists, but because they sense a business opportunity.

So far, no one has shaken up the field by starting a nationwide chain of comic stores, but Geppi suggests that such a move may not be far away: "As comic books get more and more exposure to the financial people of the world, and they see there are profits to be had, someone with venture capital will come in and hire the talent that they need."

—Michael Barrier



PHOTO: T. MICHAEL KEZA

**Steve Geppi** started selling comic books out of a basement. Now he owns five stores like this one in Baltimore—and a \$55-million distribution company.

lector's item among the country's band of first-edition comic-book fanatics."

Nostalgia had struck, and people who had read comic books as children in the late '30s and early '40s were seeking out the back-issue adventures of Green Lantern, Flash, and the Human Torch. Small stores and mail-order dealers sprang up to serve them and the collectors of more recent comics who followed in their wake. Steve Geppi, then 24, opened one such shop in 1974, in a Baltimore basement, paying rent of \$100 a month.

Even as old comic books thrived on this new attention, new comic books of the traditional 10- or 15-cent variety seemed to be on the way out. They were harder and harder to find; many traditional outlets, like drugstores and dime stores, decided they weren't worth the bother.

As recently as a decade ago, it seemed likely that the comic book—once so popular that *Walt Disney's*

ly to more adult-oriented versions of characters like Batman and Superman.

"The slogan in comics today is 'Comics aren't just for kids any more,'" Steve Geppi says. "A great deal of effort has been put into coming out with more and more adult-oriented comics, so the comic retailer is less dependent" on child readers. Comics sales still slow down in the fall as kids go back to school, he says, "but they don't slow down as much as they used to."

Ten or 15 years ago, comic-book stores might have carried 80 percent back issues and 20 percent new comics. Today, Geppi says, "it's the reverse." At Golden Age Collectables, a store in Seattle's Pike Place Market, the "Golden Age" comics from the '40s and '50s have been relegated to a glass display case in a corner. Old comics, Geppi says, are still "part of the expected decor. Even if you're not selling them, you want to retain a little flavor of nostalgia."



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## COVER STORY

*Continued from Page 21*

really at work when they buy older records: "If you think about America in the '50s and '60s, a lot of kids were growing up then who maybe heard rock 'n' roll a little bit, and maybe even liked it, but were living in households that were very repressive, and therefore they really couldn't celebrate the teenage energy and all this music until much later in life. I can't call that nostalgic; it's really a postponement of the whole experience."

In its early days, Rhino attracted attention by reissuing novelty records (one LP, "The World's Worst Records,"

times, alternate takes from long-ago studio sessions—that more often goes into reissues of jazz and classical recordings. "It's great music," Bronson says, "and it should be presented in the best possible form."

Such conviction that the music deserves respectful treatment underlies what is, on the surface, another company's more aggressively commercial approach to reissuing rock 'n' roll. About five years ago, Time-Life Entertainment, a mail-order operation based in Alexandria, Va., launched a series of albums called "The Rock 'n' Roll Era," bundling together 22 songs for each

other year-by-year Time-Life series but also imitative series by, among others, Rhino Records.

Time-Life has also issued "Rock 'n' Roll Era" albums devoted to one singer or group—Presley, the Beach Boys, the Supremes—and its market surveys indicated that such albums would sell the best. But an album of 1957 hits "has basically sold better than any of those," Stewart says. "People focus on those years—when they went to high school, when they went to college."

Nostalgia is, however, highly perishable. If you are in your early 40s, say, and for the first time in 15 or 20 years



PHOTO: T. MICHAEL KEZA

came with an air-sickness bag) and by repackaging rock in oddball ways (10 different versions of "Louie Louie" in one album), and Foos and Bronson sold themselves as the lighthearted Rhino Brothers. But today Foos, 40, and Bronson, 39, seem about as lighthearted as a couple of shirt-sleeved California bankers. For all the studied madcap touches in Rhino's offices—like a cloth rhino head with a record on its horn that decorates a stairwell—they are plainly dead serious about their work.

They got into reissues because, Foos says, "none of the records we liked were in print." Now their catalog bursts with dozens of records they like, reissues of songs by the likes of the Everly Brothers, Roy Orbison, Patsy Cline, the Neville Brothers, and Ricky Nelson, typically presented with the care—painstakingly remastered recordings, detailed liner notes, and, some-

**The summer of '89 drew many vintage rock 'n' roll acts onto the concert circuit. Here the Everly Brothers perform at Wolf Trap Farm Park in Virginia.**

year from the mid-'50s to the mid-'60s. "I did the years because it sort of reminded me of yearbooks," says Paul R. Stewart, Time-Life Entertainment's president.

Stewart's idea has been highly successful, with more than 1 million "starts," or initial orders, for the series. (People who order the first album in a series receive the remaining albums automatically unless they tell Time-Life not to send them.) "The Rock 'n' Roll Era" will grow to 40 albums before it's done—"the biggest, the best rock 'n' roll series of all time," Stewart boasts—and it has spawned not only

you hear a big hit record from 1962, you may be swamped with memories from your adolescence. But if you buy an album that includes that song, and you play it repeatedly, those powerful memories will soon be overlaid with your feelings about how the music sounds to you now. Stewart thinks that most people never reach that point: "I think what they do is listen to it a few times, and they put it away, and they keep collecting."

And yet, despite his skepticism about how long the records will be played, Stewart has produced a series that, for recording quality and high standards of production, is easily a match for Rhino's best. "I'm really proud of these things," Stewart says. "Everybody thinks they're the absolute finest recordings of their genre, and that's what I'm after." Like Foos and Bronson, he thinks the music deserves it.



Some people with a long view of popular music have their doubts. Will the music hold up over time? "I think not," says Martin Williams, author of *The Jazz Tradition* (Oxford University Press) and many other books on music. "Not like the music of the great songwriters of the first half of the century."

(Insisting on the durability of what we loved in our youth may be a way of rejecting our own mortality, of course. After all, if the beloved objects of our nostalgia are slipping into dusty irrelevance, the same thing may be happening to us.)

It's too early to say what will happen



PHOTO: T. MICHAEL KEZZ



PHOTO: G. GREG BROWN

to rock 'n' roll; for all the sales and acclaim that their efforts enjoy now, people like Graceland's Soden and Time-Life's Stewart will have to wait a few decades to learn if they have been merely riding a wave of nostalgia or if they have helped preserve a vital part of American culture.

For two other businessmen, both running enterprises that have close associations with rock 'n' roll, the verdict will come much more quickly. For them, relying heavily on nostalgia is not really an option. "Nostalgia brings people in," says Robert Giaimo, "but not over the long term. You want to look at what's good in that period and incorporate it into what's good in this period."

Giaimo is the founder and principal owner of Silver Diner Development, a company that opened a shimmering dream of a diner last February in Rockville, Md., near Washington. No other

**The Silver Diner's** principal owner, Robert Giaimo, top photo, tried to combine the appeal of traditional diners with a modern menu. His customers—2,000 of them a day—say he has succeeded.

kind of restaurant could evoke the '50s more vividly than a diner, and like the diners of the past, Giaimo's Silver Diner has Seeburg Wall-o-matic jukeboxes in each booth, filled with 20- and 30-year-old songs. But not, he hastens to say, for nostalgia's sake: "That's functional, to be able, at your table, to put in money and pick a song. That's an example of how we picked up something from the '40s because it worked."

Before opening his diner, Giaimo and his chef spent two years crisscrossing the country, eating at "about 500 diner-style restaurants" as he studied them and pinned down what he wanted. As a result, the Silver Diner—superficially so similar to classic diners—differs

from them in many critical details; for instance, the counter stools are movable, not fixed to the floor. The most important difference is in the menu.

"We make some items that were popular yesterday," Giaimo says—for instance, the Silver Diner offers meat loaf and a hot turkey sandwich—"but we don't prepare them the way they did yesterday. We use much leaner meat in our meat loaf, we use a much lighter gravy with some vegetables inside, we add herbs to our stuffing, we have rosemary on top of our meat loaf. Today, people want much more flavor." Among old diner-menu items excluded: creamed chipped beef on toast.

Giaimo wanted to open a restaurant



## COVER STORY

that would occupy the mostly empty middle ground between fast-food stores and relatively expensive specialty restaurants; and by making his restaurant a diner, he was able to tell potential customers what he was trying to do. "Its appearance on the outside immediately tells you what's going to be available on the inside," Giaino says.

The Silver Diner has spoken so clearly to passersby that revenues for its first 12 months—once projected to reach \$2.5 million—will probably hit \$4 million instead. The diner is serving 2,000 customers a day. Two more diners will open in the Washington area next

shift in the demand for fast food. At the start of the '80s, Lynn says, most fast food was eaten on the premises, but now most of it is taken out. The big hamburger chains have responded to that demand by adding drive-by windows, but the lines at those windows can be long.

Sonic, by contrast, averages 24 order stations at each of its drive-ins, Lynn says, "and we can get a cooked-to-order product out in under four minutes." In other words, although drive-ins weren't designed with take-out in mind, they serve that purpose well.

As Sonic began competing more ag-

gia continuum from the intense emotion that motivates the people who buy old jukeboxes. In Sonic's hands, nostalgia has become no more than a pleasing garnish on what is otherwise an entirely contemporary business.

**P**leasing, that is, if you approve of invoking nostalgia at all. Not everyone does. Usually, when people speak of nostalgia, they do so fondly, but the word actually has negative overtones. Here is Webster's definition: "the state of being homesick; a wistful or excessively sentimental, sometimes abnormal yearning for return to . . . some past period."

For some people, the dictionary is, if anything, too soft on nostalgia. Columnist George F. Will has dismissed nostalgia as "narcissism . . . modern man's worship of himself through veneration of things associated with his development."

One of the harshest judgments on nostalgia comes from, of all people, a well-known rock musician of the '60s, Frank Zappa, founder of the Mothers of Invention and creator of such nostalgia-defying albums as "Weasels Ripped My Flesh." In *The Real Frank Zappa Book* (Poseidon Press), using italics and boldface to emphasize his points, Zappa writes:

*"It isn't necessary to imagine the world ending in fire or ice—there are two other possibilities: one is paperwork, and the other is nostalgia. When you compute the length of time between The Event and The Nostalgia For the Event, the span seems to be about a year less in each cycle. Eventually within the next quarter of a century, the nostalgia cycles will be so close together that people will not be able to take a step without being nostalgic for the one they just took. At that point, everything stops. Death by Nostalgia."*

Zappa is surely too harsh. For most people, nostalgia is not so much a paralyzing flight into the past as a way to bring the past alive in the present—that is, it helps make their lives seem whole. Millions of Americans find themselves refreshed and comforted when they call up some cherished memory—by playing a new compact-disc version of a well-loved record, by visiting a place like Graceland, by eating in a diner that blends the best of the past and the present, or by reading something like . . . like . . . well, like that great article on nostalgia in the December 1989 *Nation's Business*. Hey, wasn't that terrific? Man, they aren't writin' 'em like that anymore. **■**



Hamburger drive-ins flourished in the '50s, and Stephen Lynn of Oklahoma City-based Sonic Industries is using nostalgic appeal to boost his chain today.

year, and Giaino expects to be franchising soon after that.

If any kind of eating place speaks as strongly of a period as a diner does, it may be the drive-in hamburger restaurant with carhop service. Drive-ins flourished in the '50s and '60s but have since been eclipsed by the fast-food chains.

Or so it seemed.

Sonic Industries is an Oklahoma City company that franchises what C. Stephen Lynn, its president and chief executive officer, unabashedly calls "'50s-style drive-ins," mostly in smaller towns in the South and West. (When Sonic started franchising in the '50s, it boasted of "service with the speed of sound.") By the early '80s, when Lynn took charge, Sonic had around 900 drive-ins and systemwide sales of \$260 million, but, he says, it also had "a concept that was a little tired, a little out-of-focus."

Sonic found an opening in a sharp

gressively, it used the '50s as one of its marketing tools—but only one. Sonic chose not to use a '50s motif when it updated its buildings; "we felt that would irrevocably date us," Lynn says. Instead, Sonic has one '50s promotion every year (extolling the "Nifty Fifties," for example), and it hints at the '50s constantly by using the veteran rock-'n'-roller Frankie Avalon as its spokesman, often in a tongue-in-cheek manner (in one commercial, a girl asks Avalon for his autograph—for her mother). "We use the '50s to get them in," Lynn says, "and then we show them how we can meet their No. 1 demand"—for fast takeout service—"better than our competition."

The appeal is working, Lynn says: The chain has grown to around 1,000 stores, and same-store sales have grown by a double-digit percentage each of the past three years.

Sonic's half-mocking commercials stand at the opposite end of the nostal-



To order reprints of this article, see Page 65.



# Looking Beyond Section 89

By Roger Thompson



PHOTO: TERRY ASHE

**Rep. Dan Rostenkowski, D-Ill., couldn't save Section 89, but he vowed that "we'll be back to fight another day" to eliminate perceived discrimination in employee benefits.**

**R**ep. Dan Rostenkowski knew he couldn't stop the legislative steamroller poised to flatten Section 89. He conceded defeat even before the long-awaited House vote to repeal the controversial benefits law. The lopsided margin of 390 to 36 left no doubt that Section 89—a tax-law provision designed to prevent discrimination against lower-income workers in health-care plans—had become a tax-reform orphan. No one in Congress claimed authorship, and few defended it.

Just minutes before the vote, Rostenkowski, an Illinois Democrat and chairman of the tax-writing House Ways and Means Committee, warned his colleagues that "repeal of this basic health-care protection for rank-and-file workers is an enormous mistake." He concluded with a pledge that left some wondering whether victory would be only temporary. Said Rostenkowski: "We'll be back to fight another day."

That's just what worries Stuart Brahs, Washington-based vice president for federal-government relations with the Principal Financial Group, a major health-insurance provider for small companies, headquartered in Des

Moines, Iowa. "The small-business community is taking credit for wiping Section 89 off the books, but it will rue the day that was done," Brahs warns. "Congress will come back and tax benefits and/or mandate benefits, and that is the last thing that anyone wants."

"I think a major tactical error was made. We would have been better served by trying to make the compromise rules workable, rather than trashing them."

But that's definitely not the message that small-business owners were sending to Capitol Hill during the heat of the debate, says Lisa Sprague, manager of employee-benefits issues for the U.S. Chamber of Commerce. "We were getting a message loud and clear that compromises were not something they [small businesses] could live with," she says. "They wanted outright repeal. Now we may have to face the threat of a benefits tax, but that's no justification for keeping a bad law on the books."

"Section 89 or no Section 89, I think that Rosty will try to come back and cram a benefits tax down businesses' throats. It's a matter of revenue."

James Klein, deputy executive direc-

*Section 89 is gone but not forgotten; Congress may try to tax "excess" employee benefits or even mandate certain benefits.*

tor of the Washington-based Association of Private Pension and Welfare Plans, says, "Rosty always made it clear that these [Section 89] nondiscrimination rules were in place because Congress didn't want to tax benefits. But with no nondiscrimination rules on the books, he will come after taxation of employee benefits."

Taxing benefits "may simply be a bad idea whose time has come," says Henry Saveth, a health-care consultant with A. Foster Higgins & Co. in New York.

Even Rep. John J. LaFalce, D-N.Y., legislative architect of the repeal drive, has said that he favors taxing excess benefits, but he's not sure how to define excess. "That's something we should work on with the business and labor community," he says.

Some experts have suggested that any expenditures on benefits beyond 133 percent of the norm is excess. Others refer to the first Treasury Department tax-reform proposal, in November 1984. For employer-provided health insurance, it proposed taxing any amount over \$70 a month for coverage of an individual, or \$175 a month for a family. Those amounts would be indexed to the consumer price index.

"That idea got booed out of the stadium back in 1984," says Garry Jerome, a consultant with Mercer Meidinger Hanson Inc. in Philadelphia. Tax-reform managers came up with Section 89 as a substitute for taxing benefits. But after the fiasco with that provision's complex nondiscrimination rules, Jerome says, the simplicity of a cap on tax-free benefits may now have more appeal.

Yet that doesn't mean business—or labor—will like the idea. Five years ago, "the last time there was a threat to tax benefits," says Sprague, "business and labor joined arm in arm to defeat the idea, and that's a hard combination to ignore politically."

Whatever Congress does next session will certainly be tempered by its experience with Section 89. The repeal effort started slowly last January and in the end humbled one of the most powerful men in Congress.

Rostenkowski stood helplessly on the House floor on Sept. 27 and pleaded with his colleagues not to sweep aside all nondiscrimination rules for health



## LEGISLATION

plans. For months, he had maneuvered to contain the debate over Section 89 to the committee over which he presides.

But even as Rostenkowski showed increasing willingness to simplify the law's maddeningly complex nondiscrimination rules, there was an unprecedented storm of protest from small employers refusing to settle for anything less than repeal.

Using parliamentary muscle, Rostenkowski fought to keep his third and final compromise version of Section 89 embedded in a massive deficit-reduction bill, thereby shielding the compromise from a separate vote. But with 320 House members on record favoring repeal, the House Rules Committee in late September rebuffed him and cut Section 89 loose to stand or fall on its own merits.

The House then voted simply to erase Section 89 from the books and restore the laws that applied before the Tax Reform Act of 1986. (See box.) The Senate followed suit.

Said Rep. LaFalce, chairman of the House Small Business Committee: "This was a victory for all employers against an egregiously unfair law."

It was a victory that few had thought

## The Benefit Rules That Now Govern

With repeal of Section 89, employer health and other benefit plans will now be subject to all nondiscrimination laws in place before the 1986 tax-reform act.

For employers who purchase their health plans from insurance companies, no nondiscrimination rules apply. (One exception affects a few health plans held by Voluntary Employees' Beneficiary Associations, or VEBAs.)

In contrast, self-insured companies must comply with Section 105(h), a little-known tax law that in effect posed no compliance problems because it was so vague. Health plans passed if they offered benefits to "a reasonable classification of employees." Some experts say the Internal Revenue Service now may try to put more teeth into Section 105(h), making it hard for some self-insured firms to comply.

Health benefits offered through cafeteria plans will again be subject to special nondiscrimination testing under Section 125 of the tax code.

could be won. "If you go back to where this all started last January, everyone said that repeal wouldn't go anywhere," says Frederick J. Krebs, manager of business and government policy for the U.S. Chamber of Commerce. "At each step of the way, as compromises developed, people said it won't get any better. But conventional wisdom proved to be wrong."

**O**n Sept. 12, Rostenkowski surprised everyone by agreeing to repeal. At the same time, however, he introduced a set of greatly simplified nondiscrimination rules.

During the Sept. 27 floor debate on repeal, Rostenkowski defended his last proposal as one that "would simply prohibit 'executive-only' health plans created by owners and highly paid managers who give themselves Cadillac health coverage and give absolutely nothing to their rank-and-file employees. In addition, the bill would prohibit discriminatory health plans maintained by professional service organizations; that is, doctors, lawyers, and other highly paid professionals."

But his final offer was too little, too late. **B**



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New plants for products not yet manufactured in Venezuela are already under construction, making increased use of Venezuela's gigantic reserves of natural gas. It is estimated that, after completion of the expansion program, current production capacity of 3.1 million metric tons per year will reach 9.1 million tons by 1994.

The accelerated growth planned in the petrochemical sector will come from joint ventures with foreign and national capital. Pequiven has a long-standing experience developing new investment opportunities and can count among its partners major companies in the field, from the United States, Japan, France, the Netherlands and Spain, sometimes operating together with Venezuelan private capital. Thus far, eleven joint ventures have been operating successfully. Five new ones have been established which are now in different phases of engineering and construction and four more joint ventures are expected to be created during the course of this year.

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# Food For Thought

By Michael Barrier

**J**ulia Child says she has written her last cookbook. That's not because she has worn out her welcome. Her seventh book, *The Way To Cook* (Knopf), published in October, is headed toward sales of 300,000 copies or more—an extraordinary figure for a lavishly produced book bearing a list price of \$50. The book's sales surprise even its author: "It seems amazing to me that a \$50 book will trot out of the bookstores that way."

Neither is Child daunted by the physical demands that a cookbook places on a conscientious author, who must, after all, test every recipe thoroughly. She turned 77 last Aug. 15, and she fractured a hip last year in a fall at her second home, in Santa Barbara, Calif. (She tripped over a computer cord: "I was plunging around, and I caught my foot in it and lost my balance.") But from all appearances, in a conversation at her publisher's office in New York, she is little changed from the vigorous woman who, a quarter of a century ago, wrestled sullen cuts of meat and unruly poultry into submission on public television's first successful cooking show, "The French Chef."

The big problem she has with writing cookbooks, she says, is that "it's so confining. I haven't been able to do one other thing."

Child does have other things on her mind. Through her books and television shows, she has encouraged countless Americans to make profound changes in the ways they cook, eat, and think about food, but she knows that influence of that kind is inevitably limited. No writer of cookbooks can hope for the kind of immortality that other authors covet; the greatest names of the past, like Carême and Escoffier, are more read about than read.

Will her own books be read a century from now? "Oh, no, I don't think so; things change so much. We don't know what new ovens will be like. Maybe the microwave will turn out to be better." Already, the earliest of her books, the two volumes of *Mastering the Art of French Cooking*, published in 1961 and 1970, have been revised to take into account the food processor.

While her books and TV shows have been highly successful, she hopes to leave a lasting mark with a new ven-

ture that is drawing increasing support from business—the American Institute of Wine and Food. Along with wine producer Robert Mondavi and a handful of other people, she founded the AIWF eight years ago to, in the words of one of the institute's publications, "advance the understanding, appreciation, and quality of wine and food."

The institute, based in San Francisco, has drawn the support of a small but

*Julia Child is encouraging business to help reshape Americans' attitudes toward what they eat and drink.*

impressively diversified list of companies—including food producers, wineries, retailers—and trade groups. Among them are the American Dairy Association, the Seagram Classics Wine Co., the Carnation Co., and the Quaker Oats Co. It will win more industry support, Child thinks, as membership grows: "We haven't gotten all the people in the industry who should be part of it. I think they're generally interest-

PHOTO: JIM SCHNER





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## LESSONS OF LEADERSHIP

ed, but with only 5,000 members, we really haven't had the impact that we want. We need a much stronger organization; we should have 20,000 or 30,000 members by now."

**E**arly in November, the AIWF held its seventh annual international conference on gastronomy, or good eating, in Chicago, with speakers and panelists devoting themselves to such imposing topics as Midwestern ethnic food traditions and the industrialization of American food production. But in between the speeches and the panels there was food. The conference meals were prepared by chefs from such renowned restaurants as Le Bernardin in New York and Chez Panisse in Berkeley, Calif.

Like its co-founder, the AIWF mixes a sober scrutiny of food with unabashed delight in what Julia Child often calls "the pleasures of the table." Some of AIWF's business supporters find this combination refreshing. Says Tom McDermott, a vice president of the National Live Stock & Meat Board: "When we sit down to a meal with others, it's psychological, it's social, we do it for nutrition, for pleasure—all sorts of things come into play. The institute, more than any other organization I can think of, recognizes that."

Many Americans have always had trouble with the idea that food can be enjoyed even if you take it seriously. Enjoying food has seemed a pastime for the gluttonous and the frivolous—fast-food fatties and yuppie restaurant-hoppers—whereas taking food seriously has meant swallowing it like medicine. Many people have compromised by eating what is put in front of them but not paying much attention to it.

Child, by contrast, speaks of enjoying food and taking it seriously as if they were not simply compatible but indistinguishable: "I'm disturbed at this terrible fear of food that's going on in this country. You should enjoy every mouthful. People are nutty; they should take themselves and their food seriously."

Her books and TV shows have, like the AIWF, embodied that attitude. She peeled away the mystery from French cooking techniques, making them accessible for the first time to millions of people, and she plunged into food preparation with infectious gusto. "It's fun," she says of food, and her consistent message has been that the more carefully you prepare meals and the greater your awareness of what you are eating, the more fun food becomes.

Child came late to her distinctive convictions about food. When she was growing up as Julia McWilliams, in Pasadena, Calif., "food was not really



PHOTO: BRIAN LUKARTY

**France awakened** Child's interest in cooking when she lived there 40 years ago, and she has returned often. Here she shops in the city of Grasse.

discussed. My mother came from New England, my father from Illinois, and we had all of this very good, simple, sensible American food. We didn't drink wine; one didn't, in the '20s. I really didn't get into cooking at all."

She did have an occasional brush with an exotic cuisine. Her family owned a rice farm at DeWitt, Ark., and she remembers eating squirrel on a visit there ("It was delicious"). But otherwise she bumped along in a culinary rut, all the way through Smith College, then in a job writing promotional copy for a New York furniture company, and finally during a wartime stint with the Office of Strategic Services (OSS) in Washington, D.C., where she cooked on a hot plate atop her refrigerator.

She wound up in Ceylon, filing papers for the OSS, and there she met Paul Child, an official in the agency, 10 years her senior, and, while no cook himself, a connoisseur of fine cooking. "I didn't really get interested in food until I met Paul," she says.

Paul and Julia worked together with the OSS in China, too—"we got terribly much interested in Chinese food"—and in 1945 they married, both for the first time, after returning to the U.S.

Before she married, Julia briefly attended a cooking school in Los Angeles, and "I learned how to make baking-powder biscuits and pancakes. Paul said he married me in spite of my terrible cooking. When we got married, I did a lot of cooking, using *The Joy of Cooking* and *Gourmet*. It was fun, but I didn't know much; and I realized, when I got to France, I didn't know anything."

**P**aul Child's work as a member of the Foreign Service took him to the U.S. Embassy in Paris. Julia had been casting about for a career since her days as a publicity writer—"I wanted to get into *The New Yorker*, as everyone did in those days"—but not until she tasted what French cooks made did she know what that career would be. She was impressed by "the seriousness with which they took their craft, and that it didn't make any difference how long it took, as long as it was beautifully done. That really appealed to me very much. I just fell into that; it was what I had been looking for all my life."

She studied at the famous Cordon Bleu in Paris, and then she and two French friends started their own cooking school. The three collaborated on the book that eventually turned out to be the first volume of *Mastering the Art of French Cooking*. The publisher that had originally contracted for the book turned it down—twice—and Knopf finally picked it up, somewhat grudgingly.

Around the time the book was published, Paul retired from the Foreign Service, and the Childs settled in Cambridge, Mass. Julia appeared on the local public-TV station, WGBH, to plug her book, and that led in the summer of 1962 to three experimental half-hour cooking shows. On the first show, Julia has written, "there was this woman tossing French omelettes, splashing eggs about the place, brandishing big knives, panting heavily as she careened about the stove."

Those trial episodes led in early 1963



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## LESSONS OF LEADERSHIP

to a series that eventually ran for more than 200 episodes. Audiences—first in Boston and then around the country—found her unpretentious manner winning. Her shows had a spontaneous air, because for the most part Julia "let the gaffes lie where they fell." She chose, as she later wrote, to "have things happen as they naturally do, such as mousse refusing to leave the mold, the potatoes sticking to the skillet, the apple charlotte slowly collapsing. One of the secrets of cooking is to learn to correct something if you can, and bear with it if you cannot."

"The French Chef" was followed by three series of hour-long shows, six how-to videotapes, more cookbooks, and the kind of nationwide celebrity that no other cookbook author has ever enjoyed. Propelled by her TV exposure, sales of her first six cookbooks soared; Knopf will say only that sales have been in "the millions of copies."

Her books and television shows have rewarded her handsomely—at anything like normal royalty rates, she will earn \$1 million or so from her new book alone—but Child has shied away from opportunities to earn many more dollars.

"I have to pay quite a bit for my clothes, because I'm outsized," she says—she tops 6 feet—"and as long as I can get clothes, and have a decent car, I'm not really interested in the money end of it."

She has rejected a great many proposals that she lend her name to this or that product. She doesn't take such endorsements seriously—"I think you must realize that all you're being is window dressing"—but beyond that, "if you endorse it, then you're wedded to it. Suppose they change the product? Your name is still attached to it. Once your name is on something, that means you stand by it. I think it's too risky."

Although she still makes occasional appearances on ABC's "Good Morning America," she never seriously considered moving her cooking shows to the more lucrative world of commercial TV, because "I always felt that we might be bossed around. I like public television, because I can do what I want. I hate to admit it, but I'd be perfectly happy to do it for nothing. It's a great deal of fun."

At one point she did give her television work a more formal business shape—she set up Julia Child Productions when she was making her later TV shows and the videotapes—but that company is dormant now that her TV work has slacked off. Mostly, she says, she makes do with the help of an accountant and a part-time secretary.

As for other avenues, a restaurant with Julia Child's name on it could not help but be wildly popular, but she never considered going into that business: "I know too much about it. It's a total life. Unless you had your husband or your wife in it, it would be very difficult. The hours are just so different."

For all the success she has achieved in a business sense, Child sees herself

as an educator, more than anything else; she dubbed her fourth book, *From Julia Child's Kitchen*, "a private cooking school." She has made some concessions to fashion in *The Way To Cook*, her new book, by scaling back the butter and cream in some recipes, but she remains steadfast in her devotion to French cooking, which is, after all, a pedagogue's delight—

as she says, "it's the cuisine with all the rules. What you need are the basic techniques, and then you can interpret them as you wish."

(Among all the rest of the world's cuisines, she has found only one other, she says, that really appeals to her: "I'm very, very fond of northern, Peking-style Chinese cooking. That's my second favorite. It's more related to the French; it's more structured.")

It is education, through the American Institute of Wine and Food and other avenues, that absorbs her attention now. Already, she says, the food profession in the U.S. is attracting "very well educated people," and she hopes that food preparation—traditionally a subject for trade schools—will find its way into university curricula. "What I'm very much interested in is eventually being able to have some universities that will have a degree in the fine-arts slant of gastronomy," just like a degree in theater, architecture, or dance.

Gastronomy, she says without a trace of doubt, "is really more important than any of them." **NB**

*She has rejected many proposals to lend her name to products. "If you endorse it, then you're wedded to it. Suppose they change the product? Your name is still attached to it."*





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## Brainstorming With Your Computer

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All you need is a vague notion of what you want to do or say. Then you boot up IdeaFisher on your IBM-compatible PC, punch a few keys, and begin a mind-stretching experience.

The program—with your active participation—can grind out more ideas in less time than a roomful of brainstorming college students.

It did just that in a test involving students at the University of Hawaii. IdeaFisher won't think for you, but it will tickle your brain to help you dredge up creative images and concepts long hidden in your own storehouse of memories and experiences.

IdeaFisher may be best suited for creative business tasks such as developing a new product, service, marketing strategy, name, title, theme, or slogan.

The heart of the system is a massive database of 61,000 cross-referenced idea words and phrases and more than 700,000 idea associations, arranged into 28 categories and 387 subcategories. Its

uniqueness is in the way it rapidly sorts through this mass of material, guided only by scant information provided by the user. It is outwardly simple but inwardly complex, with 25 megabytes of disk storage space compressed into seven.

Based on your answers to a series of logical questions, the program will mimic human thought to search for all the words and phrases, including even polar opposites and unorthodox categories, such as song titles and product names, that will help trigger images and associations in your own mind. Further questioning will sharpen your thinking and take you deeper into the seemingly endless database until—assuming the program works for you—a word or phrase will flash across the screen that lifts you off your seat.

IdeaFisher is the brainchild of a team of computer scientists and other specialists brought together by Marshall Fisher, a founder of the Century 21 franchise real-estate firm. IdeaFisher sells for \$495 until April 1, when the price will be raised to \$595. For information, write Fisher Idea Systems, 2302 Martin St., Suite 350, Irvine, Calif. 92715.

—Donald C. Bacon

## PLANNING

### Get Your Business Plan Off The Shelf

Entrepreneurs are famous for neglecting business plans. If they do one, it is often just to get the loan or the capital, and the plan goes on the shelf, to be more honored in the breach than the observance.

One problem is that you use book-keeping, letter-writing, number-crunching, and database functions every day to run the business. The business plan doesn't seem integral. Now it can be.

*Venture—The Entrepreneur's Handbook* bills itself as "the first comprehensive software system developed just for the emerging business." The program pulls together a number of standard business tools and adds a plan builder.

It works on IBM-compatible systems and uses the Tandy Desk Mate interface, a system of on-screen "buttons" you can "push" with a mouse or keys. The plan builder—based on the University of Southern California's Entrepreneurship Program—asks you a series of questions, either to test the feasibility of a business plan or to write the plan. As you answer the questions, the material arranges itself for a final document that can be printed out and presented to a potential investor or lender. If you do the feasibility plan and the results encourage you to go forward with your new venture, then the same material will transfer to the extended business plan that you create.

You can put figures in the spreadsheet part of the program and import them into your plan, dress the whole thing up with the word processor, and print out a professional-looking document. For the most part, *Venture* is not difficult to use, although the general ledger program is cumbersome in the Desk Mate format.

It may be that the best thing *Venture* will do for you is make you realize how unprepared you are to start a new venture; if the \$450 cost of the program saves you thousands of dollars in wasted investment and time, it would be well worth the price.

For information, contact Star Software Systems, 367 Van Ness Way, Torrance, Calif. 90501-1420; (213) 533-1190.

—Ripley Hotch



## WORD PROCESSING

## Help In Writing It Right

If you are among those business people who would rather work with a spreadsheet than spell it, the *Instant Business Letters System* (\$59) might spare you a great deal of anxiety.

Books of model business letters are familiar security blankets for those circumstances. LightningWord Corp. has transformed one anthology, the *Complete Book of Model Business Letters*, by Martha W. Cresci, into memory-resident software that is compatible with most word-processing programs.

When the letters program is loaded, it presents you with categories of letters ranging from Giving Instructions to Registering Complaints.

Within each category are about 20 letters. The model letter selected can be edited and customized. For mass mailings, the file also can be merged with a standing list of names and addresses.

Separately, when the entrepreneurial LightningWord company discovered that, like many small businesses, it was using a patchwork of employment-related forms, the firm upgraded its personnel paperwork, which will be available for sale soon on floppy disk. The *Human-Resources System* will include attorney-approved forms for everything from tendering job offers to conducting annual reviews.

For information about either product, contact LightningWord Corp., 1601 Civic Center Drive, Suite 206, Santa Clara, Calif. 95050; (408) 241-1990.

—Albert G. Holzinger

## COMPUTERS



Tiny but strong, the Atari Portfolio can exchange information with a PC.

## How Small Can You Get?

What everyone wants is an extremely powerful computer with color screen, huge storage, endless power, weighing no more than a pound, and thin enough to fit in your briefcase and still leave room for your lunch. Sort of a pocket office at a reasonable price.

That mythical machine may be as long in appearing as the Loch Ness monster, but manufacturers continue to try. Two recent entries from Atari and Poqet set a record for tiny.

The machines are about the size of a VCR tape, and weigh about a pound. Both include some basic PC programs like a calendar, calculator, and address book.

Small cards can increase memory and available programs. Both run on AA batteries (Poqet uses two, Atari uses three).

Major differences: The Atari has only one-third the memory, but then at \$399 list it only costs a fifth as much as the Poqet (\$1,995).

—Ripley Hotch

## ANSWERS

## Checking Out Computers

How can you compare IBM AS-400 series, or System 36, with comparable Wang, DEC, or Unisys hardware? Can you supply sources in order to study these systems?

H.R., Miami

The machines do have different capabilities, but much depends on the work you want them to do.

Begin by researching the software you will need for the type of work you do. Ask colleagues in your industry what they use for the applications you plan to make. Once you've determined your best software, then you can find out what type of hardware is best. Mel Mandel, technical consultant for *High Technology Business* magazine, says you may not even need the middle-range hardware that you have named. You may simply need a powerful personal computer.

## It's Still Buyer Beware

Is there any way to recoup our invest-

ment in the purchase price of a software package plagued with bugs? We had one package from a major retailer that cost \$4,200 and did not work. A second package that cost years of time and more than \$75,000 in consultants never worked. On top of that, we were told we were a Beta test site, which we had not known or agreed to.

B.V.G., Washington

Unfortunately, software has never had the same kind of guarantees that manufactured products do. Software companies usually offer telephone technical advice, to talk you through problems, but they won't (and can't) replace time or sales lost.

For one thing, it's hard to say exactly where the blame lies for errors. A few years ago a New England contractor made an error in his Lotus 1-2-3 spreadsheet that meant he underbid a project by several hundred thousand dollars—and lost that money. A lawsuit resulted, and the judge in the case ruled that Lotus could not be held responsible for errors by the user.

In general, reputable software com-

panies will do their best to help you, but they regularly put disclaimers on their packages that pretty much restrict their liability to replacing defective disks.

When you are going to spend a lot of money on any computer equipment or software, you should take the same care you do with any other purchase: Specify what you want the package to do, and get a signed agreement with your vendors about what they will do if the package does not operate as you both agree it should.

A contract offers your best protection.

## HAVE A QUESTION?

## We'll Try To Help

If you are stumped by a small-business computing question, we might be able to help. In this column, we will answer questions that we think will apply to a number of other business people. Send your questions to "Small-Business Computing," *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. **BB**



## WORKPLACE

# How To Comply With The Polygraph Law

**T**he use of polygraphs—or so-called lie detectors—in the workplace was the subject of a long dispute in Congress, where questions were raised about the devices' effectiveness.

It was argued on one side that a polygraph operated by a trained individual can be a valuable tool for an employer in screening job applicants and investigating workplace crime.

In such examinations, the polygraph measures physiological pulsations, such as the heart rate, while a subject is responding to questions. Large fluctuations in the various measures are considered by some as signs of untruthfulness.

Opponents of the use of the polygraph maintained that stress detected by the equipment is not necessarily proof of untruthfulness, but instead could be the result of physical or psychological discomfort.

In the end, the opposition prevailed, and Congress passed the Employee Polygraph Protection Act of 1988. It prohibits the use of polygraphs to screen job applicants or investigate employees, but the law makes certain exceptions.

Employers should be aware of the provisions of the law, including the circumstances in which use of the equipment is allowed.

Following are the basic elements of the polygraph act:

## Employers' Rights Under The Law

The Employee Polygraph Protection Act prohibits the use of polygraphs for pre-employment screening by most private-sector employers. (Exempted are security-service firms and pharmaceutical manufacturers, distributors, and dispensers.)

The act permits limited testing of employees as part of workplace investigations, but only under strict regulations.

No employer can legally screen employees randomly or periodically.

The act specifically outlaws employers' use of polygraphs, deceptographs, voice-stress analyzers, psychological-stress evaluators, and other devices used to judge a person's honesty.

## Proper Testing Procedures

In the course of a workplace investiga-

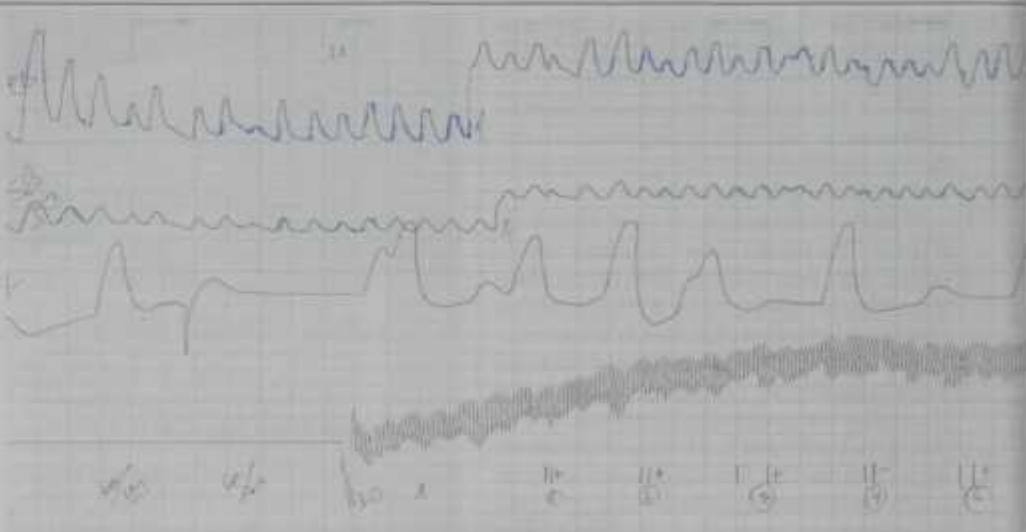


PHOTO: ILLINOIS JAZZ-FOCUS

**A polygraph test like the one shown at top is reviewed by an examiner, who must meet certain licensing and professional requirements.**

tion, an employer cannot suggest to employees the possible use of a polygraph instrument until satisfying these 10 conditions:

**1. Economic loss or injury:** The employer must administer the test as part of an investigation of a specific incident involving economic loss or injury to the business, such as theft or sabotage.

**2. Access:** The employee who is to be tested must have had access to the

property that is the subject of the investigation.

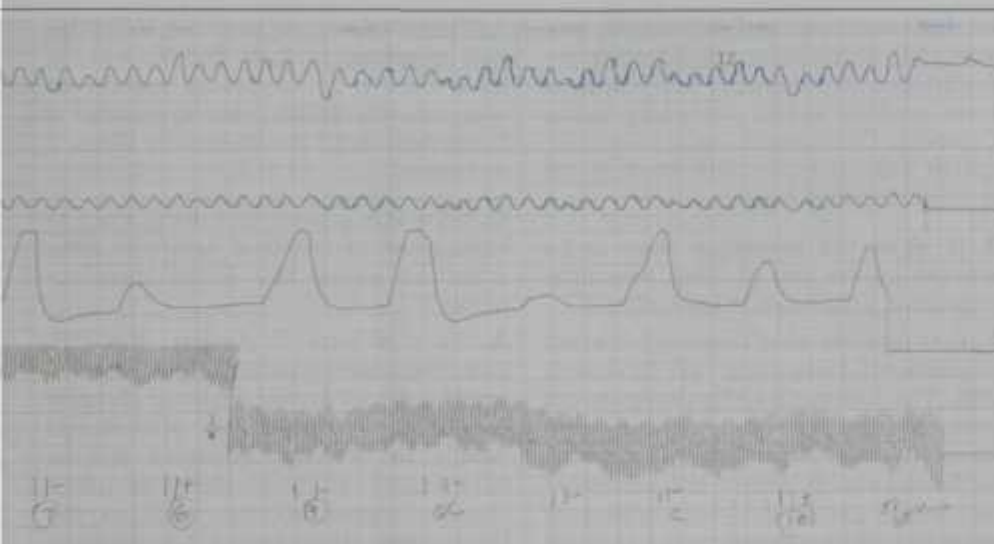
**3. Reasonable suspicion:** The employer must have a reasonable suspicion of the worker's involvement in the incident under investigation.

**4. Before the test:** An employer's failure to adhere to guidelines can void a test and subject the employer to fines and liability.

The employee who is to be tested



## *These guidelines can help employers meet the new federal restrictions on the use of polygraphs in the workplace.*



must be notified in writing at least 48 hours—not counting weekends and holidays—prior to the test:

- where and when the examination will take place;
- the specific matter under investigation;
- the basis for concluding that the employee had access to the property being investigated;
- the reason the employer suspects the employee of involvement;
- the employee's right to consult with legal counsel or an employee representative before each phase of the test.

Also before the test, the employee must be provided:

- oral and written notice explaining the nature of the polygraph, its physical operation, and the test procedure;
- copies of all questions that will be asked during the test;
- oral and written notice, in language understood by the employee and bearing the employee's signature, advising the worker of his or her rights under the act.

### **5. Procedural requirements for polygraph examinations:**

- The test must last at least 90 minutes unless the examinee terminates the test.
- Either party, employer or employee, can record the test with the other's knowledge.
- Questions cannot pertain to religious, political, or racial matters; sexual behavior; or beliefs, affiliations, or

lawful activities related to unions or labor organizations; and questions cannot be asked in a degrading or needlessly intrusive manner.

- A worker can be excused from a test with a physician's written advisement that the subject suffers from a medical or psychological condition or is undergoing treatment that might cause abnormal responses during the examination.

• An employee has the right to consult with counsel before, during, and after the examination, but not to have counsel present during the actual examination.

- An employee must be advised that his or her confessions may be grounds for firing or demotion, and that the employer may share admissions of criminal conduct with law-enforcement officials.

• A worker can terminate or refuse to take a test and cannot be demoted or fired for doing so. But the employer can demote or fire the worker if he or she has enough separate supporting evidence to justify taking that action.

**6. After the test:** Before an employer can take action against a worker based on the test results, the employee has a right to a written copy of the tester's opinion, copies of the questions and corresponding replies, and an opportunity to discuss the results with the employer.

An employee may be disciplined, fired, or demoted on the basis of the test results if the employer has sup-

porting evidence, which can include the evidence gathered to support the decision to administer the test, to justify such action.

Test results cannot be released to the public, only to the employee or his or her designate; the employer; a court, government agency, arbitrator, or mediator (by court order); or appropriate government agency if disclosure is admission of criminal conduct (without court order).

The examiner may show test results, without identifying information, to other examiners in order to obtain second opinions.

**7. Qualifications of examiners:** An employer can be held liable for an examiner's failure to meet requirements, which cover licensing, bonding or professional liability coverage, testing guidelines, and the formation of opinions.

**8. Waiving employee rights:** A worker cannot be tested—even at his or her insistence—if the employer cannot meet procedural requirements and prove reasonable suspicion and access. Employees may not waive their rights under the act except in connection with written settlement of a lawsuit or pending legal action.

**9. State law/collective bargaining agreements:** The act does not pre-empt any state or local law or collective bargaining agreement that is more restrictive than the act.

**10. Record-keeping requirements:** Records of polygraph exams should be kept for at least three years by the employer and the examiner, who must make them available—within 72 hours upon request—to the Department of Labor. ■

*This article was adapted from The Employee Polygraph Protection Act: A Guide to Compliance, published by the U.S. Chamber of Commerce. Copies of the 40-page publication are available. The price is \$10 for Chamber members and \$15 for nonmembers. Ask for publication No. 0142.*

*Send your check to the U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062.*

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## INTERNATIONAL TRADE

# Keeping Up With EC92

By Albert G. Holzinger

**H**ow are the 12 members of the European Community progressing in establishing the legal framework for their consolidation into a single economic bloc in 1992? How can U.S. small businesses keep current on the planning for the creation of an economic superpower that will be the equal of the U.S. or Japan?

American business people are seeking the answers to those and many other questions about EC92 because of their awareness that a unified Europe will present tremendous new opportunities to U.S. enterprises prepared to move quickly and astutely.

The best way to build an information base on how to take advantage of those opportunities is to start with some basic homework.

A good way to begin is by rereading "EC92," the cover story in the June issue of *Nation's Business*. (Reprints are available. See the "Recent Best Sellers" category on Page 65.) Another way is to study *Europe 1992: A Practical Guide for American Business*, written by International Division staff members of the U.S. Chamber of Commerce. (Call 202/463-5469 for ordering information.)

With a solid background, you will be better equipped to deal with the ongoing developments of the EC92 planning process. That process has already raised questions. Here, to add to your knowledge, are the answers to some of the questions that are asked most frequently.

**Q.** What is the status of the 279 pieces of legislation that the European Community must adopt under its single internal market program?

**A.** The European Commission has drafted about 230 of those directives and regulations, and the Council of Ministers and Parliament have enacted 130 of them, according to the Single Internal Market Information Service of the U.S. Department of Commerce.

But don't conclude from those figures that the EC has cleared about half the legislative barriers to achieving a single market.

All but 13 of the measures enacted thus far are EC directives, which outline results to be achieved but do not take effect until all member nations en-

act implementing legislation. (In contrast, EC regulations are effective immediately and supersede national laws when conflicts exist.) According to the European Commission, only seven directives have been implemented so far by all 12 member nations.

**Q.** Is all of this legislation likely to be finalized by the end of 1992, when the program is scheduled to take effect?

**A.** It is unlikely that the single-market program will be in place fully by Jan. 1, 1993. The European Commission is not close to proposing some politically sensitive directives, including one addressing border supervision of movements of people and goods. And legislatures of member nations are not racing to enact implementing legislation, some of which will advance the economic interests of the EC as a whole at the expense of each member nation's welfare.

EC leaders also could have many years' work before them in several policy areas technically outside the single-market program but closely related to it. These areas include policies concerning labor rights in the single European market, and Community-wide coordination of monetary and fiscal policies.

But on-time completion of the single-market program is unimportant.

What's of consequence to U.S.-business planning is this: The Europeans have clearly demonstrated resolve to complete the EC92 process, even if it takes them until the end of the century or beyond.

**Q.** Is the U.S. government doing much to keep small to mid-sized American firms informed about key EC92 developments?

**A.** Says William T. Archey, the U.S. Chamber's vice president for international policy: "At this stage of the process, companies need lots of technical details to have an informed opinion [about how EC92 is likely to affect them]. Federal agencies such as the Commerce Department are making enormous efforts" to study EC directives and regulations and make "very good" detailed analyses available to small U.S. businesses.

Frank Vargo, deputy assistant secretary of commerce, says more than 80,000 copies of individual directives have been mailed to approximately 8,000 businesses—most of them small firms—in response to their requests for





*Europe's planning process for economic unification in 1992 has raised many questions. Here are answers to some of those most frequently asked—and most important to U.S. companies.*



information from the department's Single Internal Market Information Service.

Commerce also has conducted more than 30 seminars and 12,000 individual counseling sessions for small businesses, he says. (You can direct your general-information requests to the Single Internal Market Information Service, U.S. Department of Commerce, Room 3036, Washington, D.C. 20230; 202/377-5276.)

The Small Business Administration (SBA) is providing financial aid to qualified small businesses that wish to participate in trade missions to Europe, says Susan Engeleiter, the head of the agency. European trading companies and other participants from the EC have been invited to participate in SBA's Export Expo 1990 trade fair, March 27-30, 1990, in Seattle. (For more information, write the U.S. Small Business Administration, Office of International Trade, 1441 L Street, N.W., Washington, D.C. 20046, or call 1-800-368-5855.)

A directory of the dozens of offices in several U.S. departments and agencies

responsible for tracking one or more aspects of EC92 and assisting business is included in the U.S. Chamber's guide to EC92.

**Q.** What is the "social dimension" of EC92, and is it of potential importance to U.S. businesses?

**A.** In most European countries, labor unions exert much more influence over business planning and operation than they do in the U.S. In West Germany, for example, workers are represented on supervisory boards and have a voice in corporate strategic planning. Also, European governments have approved extensive but differing social-welfare systems. Labor lobbying for a generous package of community-wide rights and benefits is the "social dimension" of EC92. Several pending pieces of legislation relate to this dimension. The European Company Statute, which would facilitate mergers and joint ventures across national lines, mandates employee participation in management decision making.

In addition, there are significant labor-rights provisions in the Fifth Directive, governing corporate-management structures; the Ninth Directive, addressing the relationship between parent companies and subsidiaries; the

Tenth Directive, involving cross-border mergers; and the Thirteenth Directive, governing takeovers.

Unions also are pressing for a directive on worker safety and health and a social charter guaranteeing things such as free circulation of labor, fair wages; right to management information and consultation; and protection of children, the elderly, and the disabled.

U.S. firms ought to keep close track of developments on these and later directives concerning European labor-relations. Large businesses with European subsidiaries will be the most affected because they will have to play by new EC rules. Large and mid-sized firms planning investments in post-1992 Europe may want to reconsider if new labor regulations are too costly and intrusive. On the other hand, exporters to Europe may find their products more competitive than expected if European manufacturers' compliance costs offset many of the cost-saving efficiencies gained from other aspects of EC92.

Information on EC92's social dimension is available from several U.S. government agencies, led by the Bureau of International Labor Affairs, U.S. Department of Labor, Washington, D.C. 20210; (202) 523-6565. And comprehensive information on the social dimension and related legislation is included in the Chamber's guide to EC92.

**Q.** The European environmentalists, referred to as "greens," seem to be gaining strength. Will the environmental movement help or hinder U.S. firms seeking to do business in the unified European market?

**A.** Environmentalists, who view EC92 as an ideal opportunity to strengthen and harmonize pollution-control and resource-conservation standards, are gaining strength. In recent elections to the European Parliament, "green" candidates captured 39 seats, more than four times the number they held previously. In response, the European Commission has proposed scores of environmental directives, and many of them have been adopted already. They deal with everything from air, water, and noise pollution to recycling, handling and disposing of toxic substances, and preserving endangered species.

U.S. firms, too, should track environ-



PHOTO BY MICHAEL BEZ



## INTERNATIONAL TRADE



mental developments in the EC closely. U.S. businesses with European subsidiaries, like their EC competitors, will have to comply, probably at substantial cost. Exporters to Europe also could face increased compliance costs, for example, if only biodegradable packaging is permitted.

On the other hand, U.S. firms in the environmental-technology manufacturing and consulting industries will likely find lucrative new sales opportunities in post-1992 Europe.

More information is available in the Chamber's EC92 guide and from the U.S. Environmental Protection Agency, Office of International Activities, 401 M Street, N.W., Washington, D.C. 20460; (202) 382-4870.

**Q.** Does it appear U.S. firms will be allowed under EC92 to compete for a bigger share of the \$600-billion-a-year European government-procurement pie than the meager slice available to them now?

**A.** Directives governing public-sector purchasing of everything from buildings, dams, and roads to goods and services of all kinds are not final yet, but the EC pledges it will substantially open the procurement process.

For example, the directives will provide for increased disclosure of the new and larger number of bidding opportunities and the fewer exceptions to the competitive-bidding process. However, do not expect these directives to be a total triumph for free enterprise. In almost all cases, U.S. firms' products will be subject to 50 percent EC-content requirements, and their bid prices will have to be at least 3 percent lower than their EC competitors' prices.

Some of the most lucrative public-procurement opportunities could be available to small American service businesses in industries including architecture, environmental and industrial controls, laboratory and medical diagnostics, waste management, and educational training.

Among the government agencies following procurement legislation is the U.S. Trade Representative's Office of GATT Affairs/Government Procurement, 600 17th Street, N.W., Washington, D.C. 20506; (202) 395-3063. Details also are available in the Chamber's EC92 guide.

**Q.** Are the dramatic economic and political changes under way in Eastern Europe likely to affect prospects in the unified EC market for U.S. firms?

**A.** "Much farther down the road," says Archey, the U.S. Chamber's vice president for international policy. Although the Eastern European nations form a market of 420 million people, he says,

*It seems clear now that "there is no secretive nefarious plan in EC92. Instead, there is widespread commitment . . . to move toward integration in the context of freer competition and less government regulation."*

WILLIAM T. ARCHEY  
VICE PRESIDENT/  
INTERNATIONAL  
U.S. CHAMBER OF COMMERCE

these nations still lack "the viable economic systems necessary" for large-scale exporting or importing.

The best Eastern European candidates for trade relationships, including Poland, Hungary, and Czechoslovakia, have to overcome daunting problems such as price reform, currency inconvertibility, and transforming state-run businesses into productive private enterprises. However, Western European subsidiaries of U.S. firms will be well positioned to seize trade and investment opportunities in Eastern Europe as they do arise.

Negotiations under way between representatives of the EC and the Soviet Union are probably the most accurate measures of the current state of diplomatic and trade affairs among nations of Eastern and Western Europe. Says Frans Andriessen, EC commissioner for external affairs: "This agreement will mark the culmination of the process of normalization of the [European] Community's economic relations with Eastern Europe. It will be an ambitious agreement covering trade, commercial, and economic cooperation whose scope matches the importance of the two parties, their expectations, and the dynamics of their economic systems."

U.S. companies considering trade in Eastern Europe should keep abreast of export-control developments in these and other EC negotiations with Warsaw Pact nations. EC countries seem much more inclined than the U.S. to allow transfer of technology to Eastern Bloc states. If the EC lifts controls on items that the U.S. keeps on its restricted list, American firms will be at a competitive disadvantage as Eastern European markets emerge.

**Q.** Overall, is EC92 still more good news than bad news for small to mid-sized U.S. businesses, and what should firms of

this size be doing now to maximize opportunities?

**A.** Based on actions of the EC thus far, it still appears EC92 will provide U.S. businesses of all sizes with tremendous market opportunities. It seems clear now, says the Chamber's Archey, that "there is no secretive nefarious plan in EC92. Instead, there is widespread commitment . . . to move toward integration in the context of freer competition and less government regulation."

However, some businesses in some industries will still likely encounter what in effect are nontariff barriers to trade with post-1992 Europe. The community does not seem to be traveling down the road to market integration with a thoroughly considered long-term strategy.

Day-to-day decisions are outrunning development of underlying policies in some cases, which no doubt will result in some bad decision making.

Last fall, for example, U.S. Trade Representative Carla Hills met with EC decision makers in Brussels to express concern about what she viewed as protectionist tendencies in some draft directives, including one covering imports of television programming. Hills characterized the meetings as "gratifying and most constructive." She said she was "optimistic" that EC92 would not harm U.S. television producers, who last year sold more than \$600 million worth of programming to stations in the EC. But within a month, the EC finalized its broadcasting directive, and it requires all stations to carry at least 50 percent European-produced programming "where practicable."

This and other examples of inconsistencies and attitude changes within the EC point out how essential it is that foreign firms keep informed of the up-to-the-minute status of community proposals, especially those concerning rules governing national origin of products, local-content requirements, and product standards and certification. If any protectionism is to take root within the community, those are the areas where it most likely would arise.

EC92 watchers in the public and private sectors have two bits of advice for U.S. firms interested in the market-integration process: Read and ask.

Daily newspapers will provide some general coverage. Magazines such as *Nation's Business* will provide more. And still more can be gleaned from specialized publications. But for specific, detailed information about what the process is likely to mean to your firm, there is no substitute for inquiries of U.S. government agencies, broad business organizations such as the U.S. Chamber, and your industry's trade or professional association. **B**



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## WORKPLACE

# Wellness Works For Small Firms

By Howard Rothman

**W**hen Greg Scherer attended a "Wellness in the Workplace" seminar in 1979, little was known about the mechanics—or the potential benefits—of company-sponsored programs of health promotion for employees. Even less was understood about initiating such efforts in a small business such as Scherer's, then a Minneapolis lumber company with 115 employees.

Today, Scherer Brothers, with 280 employees and a new location in nearby Brooklyn Park, spends an average of \$90 a year per employee on its wellness program, says Lisa Wirtz, the company's benefits administrator. The firm has adopted a philosophy of allegiance to the wellness concept: "To create and support a healthy lifestyle and attitude in the workplace and at home."

The company removed all cigarette and candy machines from the premises,

replaced caffeinated coffee with decaffeinated, and now offers free healthful lunches and snacks to employees. In addition, employees are offered classes and educational materials on quitting smoking, losing weight, and preventing back injuries. They can have their blood pressure monitored if they wish, and they can take part in the company's yearly cancer screenings. Scherer Brothers also gives bonuses to those who were not absent or late during specified periods.

As a result, absenteeism at the company is about one-eighth the industry average. "We feel that the wellness program is a benefit to our employees and is used and enjoyed by many," Wirtz says. She adds that trying to put a dollar figure on the program's benefits to the company and its employees "is not important at this time."

*After-work workouts for employees at the Safeway Bakery Division in Clackamas, Ore., take place in a gym built with money they raised through a nonprofit corporation.*

*Rising costs of employer-provided health insurance are prompting firms to adopt workplace wellness programs for employees.*

Other companies, primarily major corporations, have attached dollar signs and discovered that wellness programs can have a positive effect on the bottom line. Johnson and Johnson's "Live for Life" program has reduced its annual insurance costs by \$150 per person, although the program costs the company \$120 per person each year. Pillsbury figures that every \$1 spent on its "Be Your Best" wellness program produces a \$3.63 saving in health-related costs.

A two-state study of mid-sized companies with wellness programs showed they cut absenteeism—30 percent in Michigan and 50 percent in Indiana. Reduced absenteeism saved the Indiana employers an estimated \$180,000 over four years, according to the study, sponsored by Blue Cross/Blue Shield.

Recent double-digit percentage increases in the cost of employer-provided health insurance have caused many companies to pay more attention to promoting healthy lifestyles. For example, Control Data Corp. found that employees who smoke at least one pack of cigarettes a day generate 18 percent higher health-care claims than non-



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## WORKPLACE

smokers. Persons at high risk for hypertension have 11 percent higher health claims. And individuals who are 30 percent or more overweight have health claims 11 percent higher than those who are 20 percent overweight.

Although many wellness programs are operated at large companies, "No company is too small" to benefit from such a program, says Lynn Gilfillan, community wellness representative for Coors Brewing Co. in Golden, Colo. Gilfillan helped Marshall Distributing, a 10-employee Coors distributorship in Fort Collins, Colo., set up a wellness program that includes back-injury prevention and subsidized health-club memberships. She calculates that an effective wellness program costs \$20 to \$100 per employee each year, depending on the range of program offerings.

At the 170-employee Safeway Bakery Division in Clackamas, Ore., the workers formed a nonprofit corporation called Buns on the Run and raised money to build a 5,000-square-foot fitness facility, complete with a gym and showers. It serves as the centerpiece of the company's wellness program.

The following guidelines, drawn from recommendations by a variety of wellness-program experts, could be useful for you in setting up your own wellness program:

**Define your objectives.** Decide what the program should achieve overall, and identify the people, facilities, and resources you can commit to the project. A consultant's advice could be helpful at this stage.

**Identify your needs.** Determine your employees' health problems and needs. Consultants may be helpful—uncovering health problems in the work force, deciding which programs employees likely would embrace or reject, and identifying both company and community resources that could help you implement a wellness program. A good first step in this direction is to have employees complete a health-risk appraisal and an attitude survey. The appraisal, says Dan Lynch, president of the Indianapolis-based Association for Fitness in Business, costs around \$4 per worker and pinpoints employees' specific health problems.

**Address your problems.** Smaller companies rarely need expensive, staff-run, on-site facilities, says William Horton, president of Fitness Systems Inc., a Los Angeles firm that develops company programs. "With a company under 300 employees," he says, "it is more cost-effective to go to a nearby commercial facility like a YMCA."

In fact, nonprofit as well as for-profit



PHOTO: © STEVE WERT—PICTURE GROUP

**A healthful lunch is part of a wellness program, says Lisa Wirtz.**

## For More Information

These organizations can supply further information on wellness programs:

The National Center for Health Fitness, American University, 4400 Massachusetts Ave., N.W., Washington, D.C. 20016; (202) 885-6275. Offers publications and other information on employee fitness in the workplace.

The Center for Corporate Health Promotion, 1850 Centennial Park Drive, Suite 520, Reston, Va. 22091; (703) 391-1921. Offers products and support for lifestyle-management programs.

Washington Business Group on Health, 229½ Pennsylvania Ave., S.E., Washington, D.C. 20003; (202) 547-6644. The group's Prevention Leadership Forum publishes reports on work-site wellness subjects. The reports are \$15 each or \$210 for the full set of 16.

Association for Fitness in Business, 310 North Alabama St., Suite A100, Indianapolis, Ind. 46204; (317) 636-6621. Can supply names of businesses and consultants in your area to help you start a wellness program.

National Health Information Clearinghouse, P.O. Box 1133, Washington, D.C. 20013; (202) 565-4167. Offers information and referral services for 1,000 health-related agencies, and will supply free health-style check-up forms to help employees appraise their personal health.

organizations design and implement programs to meet the needs, budgets, and time constraints of small firms. At the Coors distributorship, for example, recurring job-related back injuries were addressed through a variety of community resources. Representatives from a local hospital's occupational work center met with employees at the workplace, videotaped them performing their regular tasks, and then recommended certain educational programs and remedial exercises, which the employer then offered to employees.

**Reinforce your efforts.** Continually demonstrate your full support for the project. Some companies do this through formal policies such as on-site smoking bans, flextime for exercise, and even a "well-pay" program such as that used at Scherer Brothers Lumber.

The Washington Business Group on Health, a health-policy organization whose members are major companies, has identified other innovative and generally inexpensive means of support. These include regularly distributing free healthful snacks such as popcorn and fruit, installing showers and bicycle racks on company premises, sponsoring bike and road races, and awarding cash or merchandise to employees who meet certain health-promotion goals. "The use of incentives to promote good health is a logical extension of business's success in offering incentives to improve work performance," says Willis B. Goldbeck, president of the Washington Business Group on Health. (To contact this or other groups concerning wellness programs, see the box at left.)

**Monitor your progress.** Periodically assess your program's performance. You can learn which parts of the program have drawn satisfactory rates of participation and which have failed to attract sufficient numbers of employees.

Many companies find it useful to have a consultant help design and implement a wellness program. "A consultant can help keep you on track," says Ed Menges, president and general manager of Marshall Distributing, in Fort Collins.

But if you decide to go it alone, you can obtain information on low-cost workplace wellness programs through organizations such as the Red Cross, the American Cancer Society, the American Heart Association, and Blue Cross/Blue Shield.

No matter how you decide to proceed, keep your employees well informed. "Don't change all of the vending-machine candy into apples one night without telling employees when and why it is happening," says Gilfillan. "Don't start out with surprises." ■



## TECHNOLOGY

# Quick Checks

By Jack Wynn

**W**hen Nick Garguile, owner of the three-store Red Apple Markets grocery chain in Bremerton, Wash., tells of dealing with bad checks and stolen-credit-card charges, he talks of "necessary risks" and "unbelievable hassles." But like an entrepreneur enthusiastic about a new idea, Garguile speaks of the "godsend" and the "miracle" when he describes his newly installed electronic point-of-sale verification system.

The POS system that Garguile uses verifies checking-account and credit-card numbers and, perhaps most important to the small-business person, guarantees check purchases. "If the check

dog" rejects about 10 checks a day. Since the system was installed last January at Red Apple Markets, the stores have had no bad credit-card charges.

Garguile is typical of thousands of small-business people experimenting with new high-tech electronic POS verification systems. His system, produced by the Seattle-based Celerech Corp., can validate both checks and credit cards without telephone calls to credit-card centers for authorization.

National Data Corp. of Atlanta, one of the nation's largest electronic processors of credit-card transactions, has introduced a POS credit-card validation system based on satellite technology

*Point-of-sale systems that verify checks and credit cards cut small firms' risks of nonpayment for consumer purchases.*

nerability to con men," says John David of Amber's Chicken Kitchen, a four-store restaurant chain south of Los Angeles. Amber's grosses around \$5 million a year, does not accept credit cards, and cashes only local checks. But David says he is investigating new POS systems because "every time we turn away a check or credit card, we lose a sale entirely or limit a purchase to the amount of customer cash; either way, we lose money."

According to Cristie Drumm of the Denver-based Payment Systems Education Association (PSEA), nearly 51 billion checks will be written in 1989, and about 28 billion of them will be written



PHOTO: RICH FRIEDMAN



**Supermarket cashier Janet Garguile verifies a customer's check with the Celerech system, used also for credit-card purchases in the stores owned by her father-in-law.**

bounces after the computer says it is OK, I get all of my money back," Garguile says. His comment refers to the money-back guarantee that TeleCheck Services Inc., a Denver-based authorization service, gives on any checks that are validated by the Celerech system and later returned by a bank.

Garguile's three grocery stores take in about \$12 million a year, processing about 60 checks and 25 Visa and MasterCard transactions per day at each store. Garguile says his new "watch-

dog" developed by Indesys Inc. of Sunnyvale, Calif.

Other major players in the arena include Visa and American Express. They are developing credit-card-only verification systems that they hope will be fast and cheap enough to be accepted by high-volume, low-margin businesses such as fast-food restaurants and convenience stores, which currently accept only cash payments.

Why are small-business people pushing for faster, cheaper POS verification systems? "It is hard economic reality, a matter of trying to satisfy customers and increase profits while reducing vul-

nerability to con men," says John David of Amber's Chicken Kitchen, a four-store restaurant chain south of Los Angeles. Amber's grosses around \$5 million a year, does not accept credit cards, and cashes only local checks. But David says he is investigating new POS systems because "every time we turn away a check or credit card, we lose a sale entirely or limit a purchase to the amount of customer cash; either way, we lose money."

PSEA is a trade group for the electronic-payment-systems industry, which includes not only makers and marketers of the equipment but also those who use it, such as banks and credit-card firms.

Drumm says a recent PSEA-sponsored survey found that paying by check is preferred by 72 percent of consumers, 21 percent would rather pay

Jack Wynn is a free-lance writer in Alexandria, Va.



## TECHNOLOGY

with cash, and 5 percent prefer using credit cards.

H. Spencer Nilson, editor and publisher of the *Nilson Report*, a biweekly banking-industry newsletter based in New York City, estimates that the total number of checks written in 1992 could exceed 57 billion, with nearly 30 billion written by consumers. He says the U.S. is not likely to become a "cashless, checkless society" anytime soon.

At National Data Corp. (NDC), systems expert Robert Murphy says his company offers merchants a variety of check and credit-card verification services that range from "calling up a regional operator for voice verification to on-line computer networks and systems based on satellite linkups."

Most customers of NDC's credit-card validation system use a POS terminal that "reads" the magnetic stripe on a credit card and automatically telephones the closest NDC computer, which relays the call to NDC headquarters in Atlanta. Then, depending on the type of credit card, Murphy says, NDC "forwards the call to, say, Visa or MasterCard, which hands it off to the actual bank that issued the card."

After the bank validates or rejects the card, the information is flashed

down the chain to the waiting merchant. The whole process is automatic, Murphy says, and rarely takes more than a few seconds, "as long as there are no high-volume traffic delays." Merchants pay a usage-based fee for telephone-line time and an average of 10 cents for each credit-card validation.

A special NDC terminal is also available for storing transaction information and transferring it to merchants' banks at the end of the day. The transfer charge is 12 to 17 cents per credit-card transaction.

Working with satellite-technology experts at Indesys Inc., NDC has developed a point-of-sale system that allows merchants to validate credit-card purchases within one or two seconds by checking them against "stop" files of bad account numbers stored in an on-site computer. Merchants must install a satellite antenna to receive daily file updates from Indesys. The system costs \$1,200 to \$1,500, and there is an additional charge of 7 cents for each credit-card verification.

For check verification, Murphy says, NDC installs a computer-based system that approves checks written by customers who have been approved for check-cashing privileges. A customer

applies for such privileges by supplying detailed loan-account information. On approval, the customer receives a check-cashing card, and the customer's account number is stored in the computer. There is no reimbursement guarantee for a check returned by the bank. Murphy says NDC charges 10 to 15 cents for each check validation.

In 1988, Visa began testing its "express payment service" at 17 Arby's fast-food restaurants in Phoenix, Ariz., and at 14 Wendy's restaurants in Columbus, Ohio. Each restaurant has a computerized FM receiver linked to POS credit-card readers. If a credit card is validated, the transaction will be made. Every day, Visa transmits to the computer a list of numbers for "hot cards"—those that are not acceptable—circulating in the immediate area. Credit-card transactions are stored in the computer and transferred to banks at the end of the day.

**T**he Celerex system that Nick Garguile uses is known as an "off-line" system because time-consuming off-site telephone calls are not needed to authorize a purchase. It provides merchants with instant verifications for both check and credit-card purchases.

Celerex Chairman Tom Kegley says the system is based on a microcomputer; it is installed at each store and contains the entire nationwide "stop" files for MasterCard, Visa, and Discover credit cards and a national list of bad-check numbers supplied by the Tele-Check authorization service.

The computer is linked to Celerex POS terminals that "read" both credit cards and checks and flash the information to the computer, where it is compared with the "stop" file lists.

At the end of a business day, merchants go on-line for 40 seconds, while they send all credit-card transaction information to Celerex by modem linkup over standard telephone lines. Celerex then sends the transactions for settlement to processing banks. During the on-line connection, Celerex also updates credit-card and check-stop files.

Kegley says a merchant would pay about \$125 per month in equipment and service charges for a one-terminal system.

In coming months, many more small, mainstream American businesses, such as parking lots, theaters, restaurants, and convenience stores, are expected to experiment with POS systems designed to speed customer service while providing state-of-the-art protection against fraud. **B**

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## FRANCHISING

# Franchising's House Calls

By Meg Whittemore

**Y**ou and your spouse both work, dinner hasn't been planned, you want to pick up a video to watch tonight, your mother should see a doctor, and you need to remove the living-room drapes and take them to a cleaner.

Where do you find the time to deal with all this? For many people today, the answer is a home-delivery service, a fast-growing sector of franchising.

In an age of concern about declining customer service, franchising has stepped in with some new twists—and a few old customs updated—in the field of to-your-door service. John Reynolds, marketing director for the International Franchise Association, says consumers last year poured "billions of dollars" into a wide array of home-delivered franchised services—from pet care to physicians' visits.

Volume of business is the key to the success of these franchises. Linda Mudd, vice president and founder of Doctors To Your Door, a referral service, estimates that her headquarters office, in Louisville, Ky., will schedule about 20,000 physician house calls in 1990.

Mudd says there is a growing number of people who, to some degree, are confined to home and would prefer to have physicians come to them for essentially routine care. "People are living longer, and when a patient is homebound, he or she can get to the doctor's office only with considerable effort and expense," she says. "I felt that just wasn't right."

Mudd, 65, who has been a nonmedical specialist in the field of home health care for 25 years, decided to bridge the gap between the at-home patient and the community of physicians. "I felt

that many doctors were looking for an alternative style of practice," she says. A classified ad in a Louisville newspaper proved her correct. Fourteen doctors responded, their licenses and credentials were reviewed carefully, and they became the core of Mudd's first Doctors To Your Door enterprise.

DTYD, which now has three franchises in the Louisville area and Cincinnati, acts as a referral agency between

the patient and the physician, and it also handles Medicare and Medicaid paperwork for elderly shut-ins. Doctors provide their own transportation and insurance. DTYD charges a \$25 fee to the physician, who in turn charges the patient. (In Louisville, Medicare will pay \$40 to \$45 for a house call.) The referrals that the Louisville headquarters office expects to make next year will generate about \$500,000 in income.

DTYD franchises sell for \$25,000 to \$75,000, depending on the market size, and pay monthly royalties of 5 percent on sales plus a 1-percent advertising fee.

"The time has come for us to face the reality of our aging population and offer systems of care that mirror our changing needs," Mudd says.

"Mobile anything has a bright future," says George Louser, 56, founder of Wash On Wheels, a mobile power-washing franchise based in Orlando, Fla. WOW, begun 25 years ago in Gettysburg, Pa., offers customers up to 14 cleaning services in one visit. "We wash carpets, ceilings, upholstery, drapes, driveways, roofs, pools, patios, and the entire house exterior," says Louser.

There is a "don't move, improve" trend taking hold across the country, he adds, and the residential market keeps WOW's 109 franchisees financially liquid. This underscores Louser's belief that success has three main ingredients: "cash flow, cash flow, and cash



At home in Louisville, Ruth Highsmith is examined by Dr. Rodney Peterson.

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flow." Residential customers pay \$125 to \$250 for a WOW service call, depending on the amount of cleaning done. "Franchisees average three to four homes a day," says Louser, "which translates into a healthy cash flow."

It costs \$12,000 to \$18,200 to start a WOW franchise, and Louser supplies much support. "We are with the franchisee for the first 125 days, which is a great head start," he says. WOW provides equipment, training, marketing, and a telemarketing blitz to commercial accounts in the franchisee's market. Owners operate out of their homes, and they pay a 3-percent monthly royalty on sales up to \$6,000 and 2 percent on sales above that. In addition, the franchisee pays a monthly advertising fee of 1 percent.

Louser's formula—giving time-short consumers necessary services by well-trained franchisees—appears to be working. WOW rang up \$1 million in sales in 1989.

For Frank Jordan, cashing in on the home-delivery concept meant tapping into consumers' appetite for videocassette films.

Jordan, 40, founded Video Van in 1987 in Salem, N.H. The firm offers home delivery and pickup of current and classic videos. "The concept in-

volves convenience to the customer and volume business to us," he says.

Jordan estimates that his 20 franchises produced \$1.2 million in revenue and \$500,000 in profits for the first three quarters of 1989. For \$25, a customer receives a one-year membership, a catalog of movies, and a patented lock box for the front door. Tapes rent for \$3 each and are dropped off and picked up at the customer's home. Jordan says most customers rent eight to 10 movies monthly from Video Van, double the national average for customers who go to video stores for their films.

Start-up costs for a franchise come to \$22,500. Each month the franchisee pays a royalty of 5 percent of sales and an advertising fee of 4 percent. Jordan says he plans to grow fast with his concept: "Profit doesn't necessarily have to be related to originality."

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# Writing The Book On Employees

By Randall G. Hesser

**A**n employee handbook can be a double-edged sword.

A well-drafted handbook can set forth a company's policies and practices in a way that helps make new employees loyal and productive workers. But a poorly drafted handbook can tie a company's hands and result in disputes on policies ranging from vacation schedules to discipline.

An employee handbook is a company's written introduction to its new employees and its first chance to make a good impression. Both the employees and the company want a mutually satisfying and rewarding employment relationship. The company also wants to build the employees' loyalty and morale, and, perhaps, to use the handbook to brag about the company's product, history, and employee benefits.

But in a growing number of states, handbooks are being regarded as more than a simple introduction. Courts have held that an employee handbook creates what amounts to an employment contract, with its provisions enforceable against the company.

In most states, a nonunion worker, unless he or she has an individual employment contract, is employed at will. This means that either the employee or the company can terminate the employment relationship at any time for any reason that is not illegal.

In most states, very few reasons are illegal. A company obviously cannot terminate an employee on grounds of race, religion, gender, age, or national origin. In almost every state it is illegal to terminate an employee for filing a worker's-compensation claim. In most states, employment at will generally means that a company doesn't need "just cause" to terminate or discipline an employee, so long as the company is acting within the law.

A poorly drafted handbook can

*Randall G. Hesser is a partner in the Elkhart, Ind., law firm of Warrick, Weaver & Boyn. Its services to business clients include advice on the preparation of employee handbooks. The material in this article is provided for general information and should not be relied upon as legal advice generally or in any particular situation.*



ILLUSTRATIONS: RICHARD WALDRER—EUCALYPTUS TREE STUDIO

**A firm's hands can be tied and disputes can arise if the company's handbook is drafted poorly.**



**The ability to modify the handbook is necessary for proper management of the company.**

change that relationship. In states that consider employee handbooks enforceable, a court will interpret vague provisions of the handbook in favor of the employee because an employee handbook is drafted by the company, rather than negotiated with the employees. If a handbook lists specific plant work rules, for example, a court might say that an employee cannot be disciplined for conduct that is not clearly prohibited by a specific rule. If the handbook provides for progressive discipline, a company could be held liable to an em-

ployee for bypassing that procedure.

What makes this most alarming is that these issues typically arise in the worst kinds of cases. An employee may do something terrible that would constitute grounds for immediate dismissal under almost any standard of conduct, yet the employee's action may not fall within the handbook's specific list of prohibitions. Just as bad is handbook language that limits discipline to a "warning" for first offenses, regardless of the nature of the offense.

The employee handbook should not be written or presented in such a way as to prohibit modification, restrict necessary flexibility, or otherwise unduly burden the company. A firm should include in the handbook a strong statement that it is not intended as a contract of employment and does not constitute one; the handbook should state that continued employment is at the will of the company. The employee handbook should also specify that it is only a source of general information concerning the company's policies, procedures, and work rules as they exist on the date of publication.

Even if your state does not consider an employee handbook enforceable, your company should be prepared to be bound by the handbook as if it were a contract. It should be drafted so that the company retains enough flexibility to manage properly and, when necessary, discipline its employees. The section of the handbook covering plant work rules, for example, should specifically state that these rules are not intended to be a comprehensive list of all prohibited conduct, but are only examples of the kinds of conduct that may result in discipline. It should further say that the company reserves the right to take any disciplinary action, including suspension or termination, in all cases it deems appropriate.

Here are a few topics that generally are discussed in employee handbooks and that require careful drafting:

**Employee-benefit plans.** Employee handbooks often contain provisions that refer to benefits available to employees and their dependents. These benefits, such as retirement plans, group health plans, life insurance, and disability payments, may be established through plan agreements on insurance



*Draft your employee handbook carefully so that you retain flexibility to manage and discipline employees. Don't let the text become a contract that ties you in legal knots.*

policies. Employees usually receive summaries of plans or certificate-of-coverage booklets that outline the specific terms of those plans.

The employee handbook should not attempt to describe the benefits available under these plans. At most, it should briefly refer to the different plans available and should direct employees to see the plan or plan summary for further details. By mentioning specific benefits in the employee handbook, the company risks being unclear or even wrong about them and, therefore, exposing itself to liability.

**Hours and vacations.** Employee handbooks may contain provisions that state the company's hours of operation, starting and ending times for shifts, break times, and vacation information. In discussing these hours and vacations, the handbook should contain a specific statement that the company reserves the right to change them. Business conditions may require that hours and days be changed from time to time, and later disputes can be lessened or even avoided if the employees are told of this possibility in the handbook.

If the handbook discusses vacations, it should specify at what point an employee has earned vacation pay. It also should specify what happens when an employee leaves a company before his or her next earned vacation. In Indiana, for example, an employee who leaves a company is entitled to a portion of his or her next vacation pay, unless the company specified that there is no accrual of vacation pay. The handbook, therefore, might contain language that vacation pay does not accrue and is not earned until a specific date.

As to vacation scheduling, the handbook may contain guidelines that the company intends to follow. It should not, however, promise to assign vacation times based on seniority or on a first-come, first-served basis in all cases. Again, business conditions or other factors may make it burdensome for the company to be without certain employees at a given time. It is important that the company reserve its right to schedule vacations and to change vacation schedules when necessary. It is equally important that employees be told that this can happen, so that they won't be surprised if they find their



*Be specific about vacations, and reserve the right to change days off when business conditions require it.*



*Holiday-pay provisions should be drafted carefully to prevent excessive overtime and "pyramiding."*

vacation schedules have to be changed.

**Overtime and holiday pay.** The language on these provisions should be drafted carefully to prevent excessive overtime and "pyramiding." Simply put, pyramiding allows an employee to use the same hours more than once in calculating compensation. The result can be that, instead of receiving time and a half for overtime hours, the employee receives two or three times the normal compensation for those hours. Pyramiding could occur, for example, with a provision that allowed overtime

compensation for any time worked over eight hours per day and after the 40th hour in a week. An employee working five 10-hour days has already worked 40 hours after the fourth day. If the handbook language is not properly drafted, that employee is due overtime pay for all of the hours on the fifth day, even though he or she has already been paid overtime for eight of the previous 40 hours because of working more than eight hours a day.

**Drug and alcohol policies.** Drug and alcohol abuse in the workplace is an increasing problem, from the perspectives of liability and employee morale. To protect themselves and their employees, many companies have instituted drug and alcohol policies, which may include pre-employment screening, post-accident testing, and the right to conduct searches. These policies should be included in the handbook and should be written thoughtfully and carefully.

A strong policy puts employees on notice that the company takes this issue seriously and will enforce that policy. A written statement that lets employees know that lockers, cars, lunch boxes, and other places and things will be searched under appropriate circumstances may deter drug and alcohol use and may also lessen legal problems when it is necessary for the company to conduct such a search. Having a written policy in effect makes it harder for the employee to assert a right of privacy that allows the hiding of drugs or alcohol or even stolen property.

**T**here is no exact formula to follow in deciding what should or should not be included in your employee handbook. The items discussed in this article are just some examples. To a large extent, what your employee handbook should cover depends on the size, nature, and background of your company, your employees, and even your competitors.

The important point is that if you draft an employee handbook, do it right. Use it to introduce employees to the company by outlining your general policies, rules, and procedures. Don't let your employee handbook become a poorly drafted contract that ties you in legal knots and interferes with proper management. ■



# Courts Clamp Down On Boards

By Steven C. Bahls and Jane Easter Bahls

**W**hen electrical contractors Elmer Balvik and Thomas Sylvester incorporated their business, each received stock in proportion to the capital each contributed to the firm—70 percent for Sylvester and 30 percent for Balvik. The two men and their wives became directors of the corporation, Weldon Electric, in Jamestown, N.D. They elected Sylvester president and Balvik

profits, so Balvik received no benefit from his 30 percent ownership. He asked a court to dissolve the corporation and order that he be paid for his share.

North Dakota's Supreme Court recently declared Sylvester's actions "oppressive" and ruled that although the corporation need not be dissolved, the firm must pay Balvik \$15,000 for his stock. Balvik says the court "tried to

## Minority Shareholders

Often, when disagreements arise among those who own stock in a company with only a handful of shareholders, majority shareholders remove a minority shareholder from the board, fire him from his company job, and stop paying dividends. And usually a person who owns a minority of shares in a company with few shareholders cannot simply call a broker and sell those shares. With no ready market for the stock, minority shareholders in effect can be frozen out, holding an unmarketable investment that pays no return.

Increasingly, judges are requiring majority shareholders and directors to meet the reasonable expectations of minority shareholders. Although courts have long had the power to protect minority shareholders, they would not do so unless the conduct of the majority shareholder amounted to "oppression." Until recently, oppression was defined narrowly as conduct that violated the law or amounted to outright fraud. Within the past five years, though, numerous state courts have defined oppression of minority shareholders as violating the fiduciary duty of the majority to look after the interests of the minority and not frustrate their reasonable expectations.

In the Balvik case, the court noted that Balvik had quit his former job to join the new business, had made a substantial investment, derived the bulk of his income from it, and "quite reasonably expected to be actively involved in the business." The fact that he was "frozen out" entitled him to the court-ordered buyout.

In supplying remedies for minority shareholders, judges have required corporations to buy out the minority—an order that could cause serious cash-flow problems for most businesses—and have ordered boards to declare dividends to ensure minority shareholders a return on their investments.

Montanan Frank Norman Jr. spent seven years and \$100,000 in legal fees in a dispute with his sister, a minority shareholder who wanted to liquidate the family business he was running. His case went twice to the Montana Supreme Court, which ordered him to buy his sister's interest. "It saps your energy," he says of such litigation.

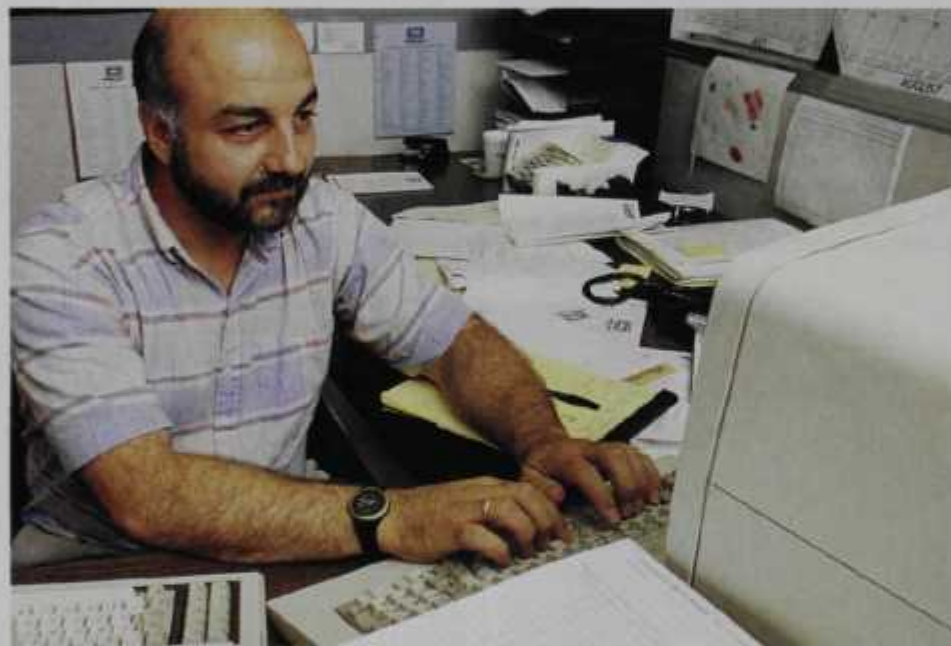


PHOTO: DIANE DULMEIER

**As majority stockholder** in an electrical-contracting firm, Thomas Sylvester voted in a new board of directors and fired the minority stockholder.

vice president. The men were paid equally and had equal decision-making authority.

When a dispute arose over management philosophy, however, Sylvester, exercising his rights as majority shareholder, voted in a new board of directors and fired Balvik. "My lawyer assured me I was within my legal rights," Sylvester says. "I thought the system was black and white."

The new board decided to reinvest all

make it fair for both sides," Sylvester says the stock's book value was lower.

The Balvik ruling exemplifies emerging legal trends that will affect small businesses as well as larger ones. Courts are backing away from two long-standing principles: that the majority shareholder necessarily rules, and that directors usually won't be second-guessed by judges. Courts now are stepping in more often on the side of minority shareholders. At the same time, corporate directors may be shielded less by the time-honored legal assumption known as the business-judgment rule, which has protected directors from liability for mistaken business judgments as long as they were made in "good faith."

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*Judges are chipping away some long-standing protections for board members' business decisions and are stepping in on the side of minority shareholders in closely held firms.*

"You don't know if you're coming on foot or on horseback."

Courts also have awarded compensatory damages to minority shareholders, have issued injunctions to prohibit further oppressive conduct, and have appointed receivers to continue the operations of corporations for the benefit of all the stockholders until the oppressive conduct ceases. Courts even have dissolved corporations to protect the rights of minority shareholders.

#### Directors' Liability

Courts unwilling to dissolve a firm or force a buyout may instead order the directors themselves to pay monetary damages to unhappy shareholders. (Boards of directors usually have liability insurance to cover such judgments.) Major decisions by boards of directors are being scrutinized more closely by courts for appropriateness.

A landmark case on directors' and officers' liability—a ruling that shook corporate boardrooms around the nation—was *Smith vs. Van Gorkom*, decided by the Delaware Supreme Court in 1985. The Delaware court sent the message that directors may no longer be insulated from liability by the long-standing "business-judgment rule," which afforded protection for business decisions made in good faith.

Jerome Van Gorkom, chairman of Trans Union Corp., had negotiated a deal to sell the corporation to a subsidiary of the Marmon Group Inc. Trans Union's board approved Marmon's purchase offer of \$55 a share, roughly \$20 per share above the market price at the time. No competing bids were sought, however, and Van Gorkom obtained the board's approval in a two-hour meeting, then signed the merger documents after a cursory reading at a benefit party for the Chicago Lyric Opera.

A group of shareholders sued, contending that the directors, by their allegedly slap-dash manner in approving the deal, had violated their duty of care—their obligation to the company to act in its best business interests. The Delaware Supreme Court ruled for the shareholders, saying the directors were not protected by the business-judgment rule because they had not exercised due care in their deliberations.

Trans Union's directors had done

what directors generally do: They had relied heavily on the recommendations of those in the corporation most familiar with the issue at hand. The Delaware court, however, found that directors must inquire into the motives and reasoning of their officers.

The Van Gorkom ruling signaled special problems for directors of small corporations; such firms usually can't afford to hire experts to advise on every

decision now bristle with exclusions, including pending or prior litigation, environmental damage, and payments of bribes or kickbacks.

Alarmed, the Delaware legislature passed a law that lets corporations limit directors' liability for breaching the duty of care, provided shareholders approve the change. New York, Pennsylvania, Ohio, and other states have enacted similar laws.

Many companies have asked shareholders to approve provisions protecting directors and officers from liability, provided they are not utterly reckless in carrying out their duties. Some companies are asking shareholders to surrender their rights to sue directors.

#### Avoiding Problems

The best protection against such legal troubles for closely held corporations is a shareholders' agreement that spells out each party's expectations. The agreement, which ought to be reviewed by a lawyer, should provide in advance for one side to buy out the other if irresolvable differences arise. It also should specify how the stock's value will be determined, how an appraiser will be selected, terms of payment, and how any deferred balance will be secured. Under such an agreement, the stock's purchaser will not have to scramble to pay cash in full.

If your board of directors includes a relative whose position is largely ceremonial, make sure the person understands the duty to stay informed about the business and consider decisions carefully. Making corporate decisions in an offhand manner invites lawsuits from disaffected shareholders.

When a difference of opinion arises in day-to-day business, encourage everyone to talk it out rather than submerge the dispute because it involves family members. If necessary, call in an experienced mediator or other neutral third party to help those in the dispute work out their differences. Going to court should be a last resort, because lawsuits are expensive, time-consuming, and stressful.

The current legal trends make it more important than ever for directors and officers to take their jobs seriously and for majority shareholders to treat the other shareholders fairly. ■



PHOTO: MICHAEL J. GREEN

**Stockholder Elmer Balvik sued—and won—after his ouster.**

action. Decisions often must be made quickly on little more than a hunch.

These trends provide two lessons. First, directors no longer can plead ignorance when sued by shareholders, even if their role on the board is largely ceremonial. They must stay informed. Second, boards of directors must make sure they consider options carefully when making major decisions.

#### State Protections

Since the Van Gorkom decision, lawsuits against directors and officers have increased as much as 10 to 25 percent per year. Accordingly, the cost of directors' and officers' liability insurance has increased tenfold in three years, and formerly comprehensive pol-



## INTERNATIONAL TRADE

# GATT's Influence For Freer Trade

By Jeremy Gaunt

**N**ot long ago, Americans put spaghetti in the same category as white bread: food for filling up but certainly not haute cuisine.

Then came the yuppie generation, spaghetti became pasta, and pasta became a staple of upscale menus. Pasta production became a major growth industry of the 1980s, according to the National Pasta Association (NPA), in Arlington, Va.

At the beginning of the pasta boom, American producers found that their pasta was selling as well as the Italian-made variety.

Later, however, American noodle makers became alarmed when they learned that their Italian competitors' market share, though still relatively small, was growing at a faster pace than their share.

This might not seem unreasonable. Pasta is, after all, thought of as Italian. And if the Italians could produce pasta competitively enough to give Americans a run for their money in their home market, who but die-hard protectionists could object?

But American producers did object when they discovered that Italian pasta manufacturers were being subsidized by the 12-nation European Community (EC).

The Italian pasta makers were getting money from the EC for every sale they made in the U.S.

The NPA petitioned the U.S. government to file a grievance with administrators of the General Agreement on Tariffs and Trade (GATT), an international treaty under which most world trade in goods is conducted. The pact is widely credited with helping to break down tariffs since World War II.

The U.S. government complied, and one year later a GATT panel in Geneva ruled 3-to-1 in favor of the U.S. complaint.

For GATT, it was a fairly straightforward matter. Article 9 of the agreement expressly forbids subsidizing processed agricultural products such as pasta.

Though the panel's ruling was blocked by the EC and therefore never formally adopted, the U.S. and the EC

subsequently forged a bilateral accord on the issue, and Italian pasta sold in the U.S. is no longer subsidized.

The issue of tariffs and subsidies related to processed and unprocessed agricultural commodities is among the stickiest of the more than a dozen major issues now under discussion by the nearly 100 GATT member nations. They are entering the final year of negotiations in the Uruguay Round of GATT talks, so named because they commenced three years ago in the seaside town of Punta del Este, Uruguay.

These talks are of great importance to American business owners. As the pasta anecdote shows, an orderly system of international trade can be crucial to American firms, even those that do not import or export directly.

Without GATT or some other body to set the rules of world trade, many economists and politicians believe, the pasta incident and countless others like it could lead the world into a vicious circle of protectionism and retaliation, the same process that brought on worldwide depression in the early 1930s.

GATT does not always work smoothly, however.

Disagreement between the U.S. and the European Community over the long-term future of agricultural subsidies almost paralyzed GATT a year ago, at a Montreal meeting called to review progress at the midpoint of the four-year Uruguay Round.

If the U.S., the EC, and Japan had not committed themselves at a second meeting last April to working at lowering their own subsidies of agricultural commodities in the long run, GATT could have unraveled completely, many observers feared, and countries could have begun abandoning hard-won multilateral trade agreements in favor of protectionist measures.

This would have been dreadful news to businesses across the globe, including those in the U.S.

**A**merican businesses have been among the main beneficiaries of the freer trade fostered by GATT since World War II.

Lower barriers have meant not only more accessible markets abroad for American products but also healthy, if not always popular, competition at home.

ILLUSTRATION: A.J. TROTT



Jeremy Gaunt is a reporter based in London.



*Settling trade disputes that could trigger economically stifling protectionism is one way that GATT, a trade treaty signed by nearly 100 nations, helps U.S. businesses.*

The competition, though causing some distress in some U.S. industries, has led to a far healthier U.S. business climate and a higher standard of living for Americans.

Lower prices brought on by fair competition and open foreign markets have meant that consumers have been able to buy more goods.

This has engendered more demand, which has created more employment, which has meant more spending by consumers, more business opportunities, and so on through the wealth-creating upward spiral of supply and demand.

Competition also has ensured that American businesses have stayed on their toes—all to the good for business and the U.S., not to mention the world.

Although the Uruguay Round of talks could collapse, that possibility seems to be diminishing for several reasons, including the Bush administration's strong resolve to reach an agreement. This, too, is good news for U.S. business. In general, America stands to benefit a great deal from some of the areas under discussion in the round, particularly the idea of extending GATT's barrier-lowering procedures to

a number of industries not already covered by the 41-year-old pact.

One of these is the services industry, which probably makes up about 30 percent of world trade. It is subject now to any number of barriers and unequal treatment in various countries.

A U.S. insurance company that wants to do business abroad, for example, finds that in many countries, foreign companies are either banned outright from setting up shop or face discriminatory regulations designed to make it difficult for them to do so.

This situation also affects U.S. businesses in need of services abroad that want to have local access to their domestic insurer.

Perhaps surprisingly, the Uruguay Round of negotiations on services has moved fairly smoothly, in part because major U.S. corporations have been lobbying hard for action.

But it also is because, to date, most of the discussion has been about principles, not specifics.

That will now change, beginning with the final negotiating drive about to begin.

The GATT negotiators have agreed

to divide the issue into six subcategories—telecommunications, finance, professional services, tourism, construction, and transportation.

Given the clout of the wealthy nations with lots at stake in this issue, further pressure to make progress can be expected.

Another current area of negotiation is intellectual-property rights. The problem here has been one of developed nations gaining adequate protection and enforcement of patents, copyrights, trademarks, and other proprietary business rights in less-developed countries.

Unfortunately, GATT's progress in this area has been slow, essentially revolving around a debate over what international organization should regulate intellectual-property rights.

Brazil and India, countries that believe they stand to lose the most by having GATT step into the fray, argue that an existing authority, the World Intellectual Property Organization (WIPO), is good enough to do the job. Wealthier countries—those whose patents and copyrights are being infringed—say WIPO has inadequate enforcement authority and maintain that GATT would be more effective.

The real problem is that businesses of richer countries want to protect their inventions and creations, while poorer countries want unrestricted access to intellectual property, which they believe will spur economic growth.

**T**he third major area of discussion in the Uruguay Round is one of the real sticklers: agricultural subsidies.

Both the U.S. and the EC prop up their farmers by guaranteeing prices and creating myriad regulations governing how much of what can be grown where. Their actions are popular with the farmers but are trade-distorting in the extreme.

The political pressures on negotiators have been huge, but faced with the possibility that GATT could unravel as a result of an impasse over agriculture, the U.S. and the EC did agree rather vaguely to a long-term inclusion of agriculture in GATT.

That's where matters will stay for a while. **B**





## INTERNATIONAL TRADE

## Origins And Operations Of A Global Trade Treaty

The General Agreement on Tariffs and Trade—widely known as GATT—is an international treaty designed to create an atmosphere of fair trade among its members. Ninety-six countries are full contracting parties to the treaty; 28 others (mainly former colonies of treaty signatories) benefit from GATT without actually being full members of the organization that was set up to administer it. Together these countries account for 90 percent of world trade.

In its simplest form, GATT strives to lower trade barriers and to seek freer trade between nations. It formulates agreements between nations for doing this and adjudicates, when possible, disputes that arise from it. To date, GATT has dealt mainly with trade in manufactured goods and raw materials, with the notable exceptions of textiles and agriculture.

It has been fairly successful, by most economists' reckoning. It is widely accepted that there are lower tariffs and fewer barriers to trade worldwide than

there would have been had GATT not existed. Here is how GATT works:

- All members of GATT share most-favored-nation status with one another. This means that whatever concessions are offered by one member to another must be extended to all members. There are exceptions, of course. A so-called safeguard clause, for example, provides countries with a way to limit sharply increasing imports that are causing serious damage to a domestic industry. Developing nations, too, are not expected to abide by quite the same rules as industrialized ones.

- If one member of GATT believes it is being treated unfairly by another, it can pass the complaint along to GATT headquarters in Geneva. GATT will then investigate the matter and make recommendations for solving the problem. About 90 percent of the disputes brought before GATT are solved.

- GATT meetings take different forms. A GATT council meets in Geneva about 10 times a year and deals with

all but the most serious policy matters. A larger meeting of contracting parties is held annually, also in Geneva. Member-state trade ministers agreed recently that they would meet under GATT's auspices every other year.

- Policy matters are discussed by GATT members in "rounds" of negotiations. There have been eight of these rounds since GATT was created in 1947, each dealing with various issues. The current one is the Uruguay Round, so named because it began in September 1986 in Punta del Este, Uruguay. It is supposed to expand GATT's mandate to cover trade in agriculture, intellectual property, and services. The midround meeting was held November 1988 in Montreal, and concluding negotiations are under way now in Geneva.

- Despite GATT's giant task, its operational organization is relatively small. Based in Geneva, it has about 350 employees and an annual budget of about \$40 million. The money comes from member countries, each paying a sum based on the percentage of world trade that it musters. The U.S. is, therefore, the largest contributor, paying about 16 percent.

That GATT not only continues to exist but also is fairly successful is quite remarkable. On paper, it is only the interim committee of an organization that never saw the light of day.

GATT was created on Oct. 30, 1947, in Havana, when 23 nations, including the U.S., signed a treaty stating their general support for fair trade and their opposition to trade protection. A year later, also in Havana, 53 nations decided to take the matter a step further. They signed the so-called Havana Charter, which called for the creation of the International Trade Organization (ITO). GATT was to be incorporated in the ITO.

The idea behind the ITO was to create an international body that would oversee international trade, spiritedly fending off the kind of protectionism that had ravaged the world's economies before World War II. It was to be similar to two other economic institutions created immediately after the war—the International Monetary Fund, which is concerned with exchange rates and acts as an international bank, and the World Bank, which is an international lending institution.

Neither the U.S. Congress nor the American business community was in favor of handing over trade matters to an outside entity, however. The decision by the U.S.—by far the strongest economic power in the world—not to approve the ITO was enough to sideline it. The ITO plan was never ratified. GATT, however, lives on. **NS**

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NS



# To Your Health

*Managing well includes managing your own health—advice to help you do that better.*

By Phyllis M. Barrier

## Boning Up On Calcium

You learned in childhood that calcium builds strong bones and teeth and that you get calcium by drinking milk. But there's more to calcium than that. Adequate calcium is important not only during childhood but also during adulthood—and not, as many people believe, for women only.

In fact, life would be impossible without calcium. Without it, nerve cells could not transmit impulses, muscles could not contract, and kidneys could not eliminate waste products.

In addition, scientific research has linked inadequate calcium intake with increased risk of developing major chronic diseases, including osteoporosis, hypertension, and colorectal cancer. All of these diseases are connected to both genetic and environmental factors, and calcium deficiency is one of the environmental factors.

**Osteoporosis.** This is a painful condition in which bones become so thin and brittle that they break easily. In 1984, a National Institutes of Health (NIH) panel reported that osteoporosis afflicted as many as half of all elderly women in the U.S., as well as nearly a quarter of older men. Estrogen deficiency, inadequate calcium, cigarette smoking, heavy alcohol consumption, insufficient exercise—all are factors in the development of osteoporosis.

Although getting enough calcium in youth and middle age can help ward off osteoporosis, calcium supplements probably don't do much good for people who already have it. Researchers say that elderly victims can slow down or stop the loss of bone mass more effectively by getting exercise, stopping smoking, and reducing alcohol consumption.

**Hypertension (high blood pressure).** In populations that consume low amounts of calcium, researchers have found, people are more likely to have high blood pressure. Several other studies have discovered that taking calcium supplements can lower blood pressure in some people who already suffer from



PHOTO: © RENE SHERET—FOCUS

*It's important to get plenty of calcium from milk and other foods during childhood—it builds strong bones and teeth—but adults need it, too.*

hypertension. In addition, pregnant women who take calcium supplements maintain lower blood pressure throughout pregnancy. Apparently, people who are genetically prone to hypertension may be able to protect themselves by taking in adequate calcium.

At this point, treating hypertension with calcium is still an experimental procedure and should be carried out only under a doctor's care. Consuming adequate calcium by eating the right foods is, however, a good idea whether hypertension is present or not.

**Colorectal cancer.** Colorectal cancer is the second most common form of cancer in men and the third most common among women. Researchers have reported that a diet high in calcium may reduce the risk of colon cancer among individuals who are prone to the disease. It appears that calcium helps remove bile acids from the colon; excessive bile acids may cause abnormal growth patterns in colon cells by acting as an irritant.

Even though more research is needed in this area, the preliminary evidence is just another reason to make sure that

your calcium intake is adequate.

But what is an adequate amount? Another NIH panel has recommended 800 milligrams per day for men and 1,000 to 1,500 milligrams per day for women (the high end of the range is for women who have had complete hysterectomies or are postmenopausal).

A cup of plain yogurt or 3 ounces of sardines (including the bones) contains about 400 milligrams of calcium; a cup of milk, a half cup of ricotta, a cup of fruited yogurt, or a slice of cheese pizza contains about 300 milligrams; an ounce of cheese averages about 200 milligrams; a half cup of ice milk or pudding, a cup of cooked dried beans, or a half cup of leafy greens (kale, bokchoy, or collards) averages about 100 milligrams of calcium.

At the end of each day, it's a good idea to review what you've eaten to see if you have received adequate calcium. If you feel you cannot get adequate calcium from the foods you eat, because of food allergies or dislikes, you may want to consider a calcium supplement, but most experts recommend that you make a real effort to get enough calcium from your food before you resort to pills. When you consume enough dairy products and other high-calcium foods, you also consume other nutrients you need to stay healthy. And some of those nutrients (vitamin D and lactose) help the body absorb calcium.

If you must use a calcium supplement, calcium carbonate and calcium citrate are the best sources. If you have a history of constipation, calcium phosphate would be a better choice, even though it has slightly less calcium than the other two.

## Employee Fitness Day Set

The second annual National Employee Health and Fitness Day, which is designed to promote exercise and fitness at the work site, will be held next May 16. More than 1,200 companies participated in the 1989 event through activities in their home communities.

Companies can obtain details on setting up their own programs for the upcoming health and fitness day by contacting NEHFD, Pan American Plaza, Suite 440, 201 South Capitol Ave., Indianapolis, Ind. 46225; (317) 237-5630. **NE**

Phyllis M. Barrier, M.S., R.D., is a nutrition consultant and nutrition coordinator for a Washington-area health-maintenance organization.



# It's Your Money

*A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.*

By Paul N. Strassels

## INVESTING

### Becoming A Good Stock Picker

Now that the stock market has not only recovered from the October 1987 plunge but has exceeded its all-time high a number of times and apparently survived the scare of last Oct. 13 without any serious damage, there is renewed interest in equities. Many people will advise you to go with mutual funds and leave the selection of stocks in particular firms to the experts. After all, the experts have the time, patience, training, and experience to pick winner after winner, and you don't.

Maybe, and maybe not. A lot of individual investors do just as well as the so-called experts. Many do even better.

The experts readily admit that they do not have an unblemished record when it comes to selecting stocks. On average, the brightest of the bright are right only two out of three times. Perhaps you can do just as well.

There are four things that successful market experts have in common. First, they don't bet their own money. Often, they are responsible for tens of millions of other people's dollars, but they don't have their own fortunes at risk.

Second, investment advisers diversify their holdings. They may have stocks in 15 different companies of various sizes and in different industries.

Third, they are completely unemotional about the securities they own. They don't feel they must stay with a stock because "it's bound to go up." They know a dog is a dog. If a security does not perform up to expectations, it's sold, and the money is reinvested in another company.

Fourth, they don't ride a stock down. Once they feel a stock has dropped far enough in price, it's gone from their portfolios. They may buy at \$20 and hold on while the stock rises to \$75. But as soon as that security drops, say, \$10, to \$65, they will bail out.

If you can diversify your invest-



PHOTO: © SAL OMARCO, JR.

*Free fall is for sky divers, not for stocks; set your bailout prices.*

ments, can be unemotional about your holdings, and can bail out when the getting is good, chances are you can pick with the experts. All you have to do is pick two winners out of three, and make sure the one loser doesn't hurt you badly.

### A Red Flag On Penny Stocks

Beginning next year, investors who buy low-priced, high-risk penny stocks over the telephone will find it easier to back out later, thanks to a new rule adopted by the Securities and Exchange Commission.

According to SEC statistics, almost 2,500 complaints about penny-stock fraud were received during the first half of 1989, compared with 1,500 for all of 1988. So, beginning Jan. 1, brokers offering these securities must obtain a new customer's written approval before the deal is completed.

Although the penny-stock market is a

legitimate arena in which to invest, the latest SEC rule should alleviate a problem with high-pressure phone solicitations.

### Stopping Your Losses

Oct. 19, 1987, was the day the stock market plunged more than 500 points. More than \$1 trillion in investor equity was wiped out. Since then, the market has rebounded, but as the events of last Oct. 13 proved, there is no guarantee that sharp drops will not happen again.

You can guard against major losses by using a simple device known as a stop-loss order. It works like this: Say you purchase XYZ stock at \$50 a share. When you buy, you leave a standing order with your broker to sell if the shares should ever decrease in value by more than 10 percent, or whatever other figure makes sense to you.

That means if your shares drop to \$45, your broker will immediately and automatically sell at the next best available price, which may be \$45 a share or even a bit below. You don't even have to make a phone call. If the shares increase in value while you hold them, the stop-loss order is never exercised.

Many brokers advise their customers to move the stop-loss figure up as the shares go up in value. Say the stock you bought at \$50 a share increases to \$60. You should consider increasing your stop-loss point to \$54. That's 90 percent of the current price. If your worst fears come to pass and the securities go into free fall, you will be able to bail out without suffering substantial losses.

## INCORPORATING

### A Reason Not To Incorporate

Conducting your business as a corporation can help limit personal liability. But beware. In a recent case, the IRS accused a corporation's owner of taking cash from the business. The IRS demanded both his personal and his business papers. He said no, claiming that the IRS could not make him incriminate himself. That's true, but only with respect to his personal records. The court said he had to furnish his corporate financial papers because a corporation has no right against self-incrimination.



*Paul N. Strassels, president of Money Matters Inc., Rapid City, S.D., is a tax-law specialist and financial adviser.*



## TAXES

## Accuracy On W-2 Forms

Employers are required to send accurate W-2s to their employees by the end of January, reflecting wages paid during the previous year and amounts

the employee and the government.

In a recent case, an employee told his firm about a mistake on his W-2. The company promised to issue a correction but somehow never got around to it. As a result, the IRS challenged the em-

<b>Form W-2 Wage and Tax Statement</b>			
<b>Copy 1 For State, City, or Local</b> Employee's and employer's copy			
ALIGN HERE →	1 Control number	3 Employer's identification number	4 Employer's state I.D. number
	2 Employer's name, address, and ZIP code		

withheld for federal, state, and Social Security taxes. The employer also sends a copy to the government and retains one for its files.

If there is an error on the W-2, the employee is to point it out to the employer. The employer in turn is supposed to issue a corrected W-2 to both

employee's return. The employee asked the firm to reimburse him for his out-of-pocket costs and the value of his time spent resolving the matter. The company refused, and the case ended up in court. The court ruled that the employee could collect from his employer.

## Erroneous Returns

With taxes as complex as they are, and with changes made frequently by Congress, by the Internal Revenue Service, and by the courts, it's a wonder that more mistakes are not made on returns. What happens when your accountant identifies an error made on one of your previously filed returns? According to the American Institute of Certified Public Accountants, the accountant should tell you about the problem and which measures you should take to correct it. The accountant is not obligated to file an amended return for you, however; the decision to file is yours.

## Tax Benefits From Disaster Losses

Many of us have suffered from hurricanes, floods, droughts, the California earthquake, and other disasters this year. If you reside in an area that was officially declared a disaster area, you can treat your losses from the disaster as though they took place last year, and you can file an amended 1988 tax return to claim those losses. But first calculate the disaster losses using both your 1988 and 1989 taxes to see which results in the greater overall tax benefit. Then file accordingly.

## Who's Paying What

Last year, the IRS took in \$935 billion. Corporate taxes accounted for 12 percent of the total; taxes paid by individuals, 51 percent; and employment taxes, 34 percent. The rest came from estate, gift, excise, and miscellaneous taxes. Those individuals earning above

\$75,000 a year paid over 50 percent of their income in federal, state, and local income taxes, sales taxes, and real-estate and personal-property taxes.

## When A Business Is Not A Business

Setting up a small, part-time business at home is a wonderful way to get started. But no matter how tiny the enterprise when you begin, you will have to report your income and claim your expenses on your tax return—probably on Schedule C, which is used by sole proprietors.

The IRS rarely has a problem with small firms that show a profit, but operating in the red is tantamount to waving a red flag in front of a bull. In one case, a taxpayer deducted more than \$10,000 in net business expenses from his small firm's operations. The IRS ruled his was more like a hobby than a true business, and the U.S. Tax Court agreed. The taxpayer spent only 35 hours during the entire year on his sideline "business." Of course, if it had operated in the black, the IRS would have collected tax on the net profits, no matter how little time was spent running the enterprise.

## Retirement Plan Reminder

To deduct contributions to your self-employed retirement plan, it must be set up by year's end, but your contributions can be made as late as the date you file your return, including extensions. Those with individual retirement accounts can establish and fund them as late as mid-April 1990 and still deduct the contribution.

## BORROWING

## Cosigning Pitfalls

Whether it is in your capacity as employer, parent, or friend, you may be called upon to cosign a loan. Think carefully before you agree. Your own financial well-being may be on the line.

When you cosign a loan, you are guaranteeing repayment if the primary borrower fails to meet his or her financial responsibility. In that event, the lender not only has the right to bill you but also can sue you if you don't pay. What's more, you remain responsible as cosigner until the loan is repaid in full, even if the primary borrower makes every payment on time.

If you apply for a loan yourself, you will have to list the cosigned loan as one of your liabilities. Say you cosign a 30-year, \$150,000 mortgage that your son (or employee, or other individual) needs to buy a home. Ten years later, you may want to take out a new mortgage or equity loan yourself. Your lender will count that cosigned loan against you in figuring your ability to pay. Your son's lender will not readily agree to release you from your responsibility as cosigner, despite your son's improved financial condition.

Get your son to write to the lender. Explain the situation and cite figures to prove that you will never be asked to make his payments. At the same time, you and your son should meet with a senior officer of the lender and state your case. If that approach does not work, ask your son to refinance the loan to get you off the hook.

## His And Hers

Both husband and wife should have separate credit histories no matter how long they have been married. That way, you will have your own separate file at the local credit bureau. Joint credit accounts, like your credit cards and bank and other installment loans, should be listed under each name, so that both of you accumulate a good record for paying those accounts as agreed.

Ten years ago, separate headings were not required, so many married women with joint accounts that were opened before then may not have credit histories of their own. That can present a problem in case of divorce or the death of the husband. The surviving wife may find that she has no credit history (good or bad) even after years of faithfully paying the bills.

If you don't have a separate credit record, or if some accounts are not listed under your name, write to the credit bureau, provide correct information, and ask that it be added to your file. Also write to creditors, and ask that from now on they report your activities under both names. **■**



# For Your Tax File

*What you need to know to keep taxes from overtaxing you.*

By Gerald W. Padwe, C.P.A.

## DEDUCTIONS

### Accrual, Cruel World

Sometimes Congress seems to take a "heads you lose, tails I win" approach to the Tax Code. The accrual method of accounting allows much more of that, and in taking up future tax legislation, Congress may well consider requiring more businesses—even service-oriented partnerships, sole proprietorships, and S corporations—to use the accrual rather than the cash method.

Claiming deductions on accrued liabilities can be tricky. The rule on deductions for accrued liabilities is that they have to be definite, not estimated, expenses. The fact of the liability has to be established by "events" that determine the amount of the liability with reasonable accuracy. This test is the critical starting point for accrual-basis deductions. But when is an event an "event"? A recent decision in a federal appeals court gave an interesting slant to the word "event," and it gave a corporate taxpayer a significant deduction before payment.

In 1980 a company settled a patent-infringement suit by agreeing to pay an inventor \$1,250 a month for the rest of her life, including a guaranteed payment term of 48 months. The company's tax return for that year determined its liability to the inventor by using mortality tables showing her life expectancy as 16 years, and it deducted the \$240,000 that would be payable at \$1,250 a month for 16 years.

The Internal Revenue Service disallowed all but the \$60,000 the inventor would get in 48 months. Mortality tables doubtless are accurate for large populations, said the IRS, but not necessarily for one person; the inventor might live more or less than 16 years.

The only certainty in the agreement, as viewed by the IRS, was that 48



PHOTO © BILL ROSS—WOODFIN CAMP

*For the masses, the IRS argued, mortality tables doubtless are accurate, but not necessarily for a party of one.*

monthly payments would have to be made whether the inventor lived or died. In short, all "events" to fix the validity of the \$240,000 deduction could not occur until the inventor had actually survived for 16 years. The proper tax treatment would be a deduction in the year of settlement for \$60,000, then a deduction of \$1,250 for each monthly sum paid after the 48th month.

The U.S. Tax Court disagreed with this analysis, as did the 2nd U.S. Circuit Court of Appeals. The "all events" test contains two prongs. First, all events must have occurred to establish the fact of liability—in this case, the sign-

ing of the settlement agreement dismissing the suit and obligating the company to pay \$1,250 per month. The second prong requires a determination of liability with "reasonable" accuracy, not with "absolute," or "total," accuracy. The use of mortality tables in this context was "reasonable." Thus the test's two prongs are satisfied; all \$240,000 is deductible.

Both courts dismissed the concept of survival as an "event" necessary to satisfy the "all events" test. An "event" changes the status quo. Since the inventor is alive,

her survival in month 49 is not a change in the status quo but a continuation of it. Therefore, it would not be an "event" under the "all events" test.

In its original return, the company claimed only the present value of the \$240,000 of payments over the 16 years, or \$120,000.

Before the case went to the tax court, however, the corporation had changed its position and determined that no recognition need be given for the concept of the time value of money. The tax court agreed, and the IRS did not appeal that finding.

Under today's tax rules, however, the time value of money is important to accrual-basis deductions. If a similar settlement were negotiated today, the IRS would have a strong case for limiting each year's deduction to the amount paid to the inventor that year.

## TAX FILING

### Year-End Reminders

The continuing implementation of the 1986 tax-reform law suggests a couple of points to keep in mind before the new year arrives. For example, personal interest continues to be phased out as a tax deduction. In 1989, such interest is 20-percent deductible; in 1990, it will be only 10-percent deductible. Therefore, it makes sense for most taxpayers to catch up with interest on credit-card balances, life-insurance loans, etc., by paying off accumulated 1989 interest before Dec. 31 rather than waiting until 1990.

Corporations subject to the alterna-

tive minimum tax should remember that 1989 is the last year of the infamous book-income adjustment. Beginning next year, other rules will replace book income. If there are to be significant financial transactions increasing book income or equity, and if they can occur in either 1989 or 1990, a corporate AMT taxpayer might consider postponing the transaction until 1990.

Finally, an important change takes place regarding U.S. savings bonds issued after 1989. Interest on those bonds that is used to pay a child's educational expenses will be wholly or partially exempt from tax if the parents' income is less than \$90,000. **MB**



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



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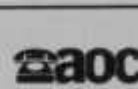


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# Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore and Bradford A. McKee



## LIVESTOCK

### Facts On Flocks

My brother and I are trying to establish ourselves in the sheep business. For the past year, we've spent a lot of money on sheep, veterinary bills, and feed and equipment, but we don't seem to be making any money. Are there any books that can help us get our business going and become more profitable?

A.V., El Paso, Texas

*Sheep Breeder* magazine offers information on the problems and successes of raising sheep, and each month the publication carries articles on a different breed of sheep. A subscription costs \$18 for 10 issues and can be obtained by writing to the magazine at 1120 Wilkes Blvd., Columbia, Mo. 65201. Nola Jacobson of *Sheep Breeder* is willing to help you with questions about your particular breed. You can reach her at (314) 442-8257.

For information on how to improve your business's bottom line, you can call Darryl McDonald at the Texas Department of Agriculture; the number is (512) 463-7476.

## RECREATION

### Campground Groundwork

I am interested in opening a campground. Where can I find information on this?

R.K., Milan, Ohio

There are about 10,000 private campgrounds in the U.S., says Micki Leak of the National Campground Owners As-

## MARKETING

### Firm Lists

I am interested in starting a business-list company. Where can I find guidance on charges, the information needed on lists, and the chances of success?

D.C., Bellevue, Neb.

Success in this field depends on the market you want to cover and on how crowded it is, says Marie Weakley, editor at the Directory Clearinghouse in Philadelphia. She suggests you decide the type of list you want to compile and where you want to send it.

The Directory Clearinghouse has two useful publications on the directory industry: *The Morgan Report on Directory Publishing*, a monthly newsletter (\$90 per year), and *Directory Publishing: A Practical Guide* (\$29.95 plus \$2 postage). Both are available from Directory Clearinghouse, c/o Morgan-Rand Publications, 2200 Sansom St., Philadelphia, Pa. 19103; (215) 557-8200.

### Direct Mail

Are there any really good books or other publications on how to get started in direct mail?

S.S., Prospect Heights, Ill.

The Direct Marketing Association has a 22-page guide of books, catalogs, and lists for direct marketing. The subjects include start-up, telemarketing, television direct response, statistics, and research. Contact DMA at 6 E. 43rd St., New York, N.Y. 10017 or call (212) 689-4977.

sociation, whose members represent about 2,800 campgrounds. The association offers a free list of publications on starting a campground, technical points, zoning, and industry standards. Contact Leak at NCOA, 11307 Sunset Hills Road, Suite B7, Reston, Va. 22090; (703) 471-0143.

## FAMILY BUSINESS

### In Search Of . . .

I am interested in beginning a family business but do not know where to begin. I enjoy baking and making candy, but I don't know if this would be profitable. Do you have any information that would help me in choosing a business?

G.H., Carrollton, Ga.



Family-business expert Sharon Nelton, special correspondent with *Nation's Business*, says you should start your business first, and if family members become involved, it will become a "family business."

Nelton recommends that if your family does join your business, "make sure that all members have clear roles so they don't step on one another's toes." She adds that "each person must make a valuable contribution in a specific area of the business."

A useful publication on starting a business is *The Do-It-Yourself Business Book*, by Gustav Berle (John Wiley and Sons, \$14.95). Berle is former director of marketing and communications, membership and training for the Service Corps of Retired Executives (SCORE), the largest volunteer organization for counseling small-business people. Call the Atlanta SCORE office, (404) 347-2441, for information on the business you are considering.

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## CUSTOM CRAFTS

### Framing: The Question

Where can I obtain information that would tell me about opening a store that does custom picture framing?  
N.M., Hackensack, N.J.



The Professional Picture Framers Association can send you its free package of start-up information. Called "A New Framer's Kit," the package contains information on the supplies you would need, how to write a work order, and how to lay out a framing shop. The kit also has a list of framing publications, the names of companies that sell art prints, and articles on how to frame different types of art.

Contact the association at 4305 Sarelle Road, Richmond, Va. 23231; (804) 226-0430.

## PUBLISHING

### For Fun And Profit

I have accumulated and edited 350 business-related jokes and written a book to sell. How can I find a publisher?  
W.M., Columbia, S.C.

Examine library reference books such as *Literary Market Place*, which lists U.S. publishers and the types of books they publish, and *Writer's Market: Where to Sell What You Write*. Many publishers review only manuscripts submitted by literary agents; who receive percentages of earnings from books.

Helen Stephenson, executive director of the Authors Guild, suggests you explore lists of agents to find the right one for your book. She recommends *Literary Agents of North America, Third Edition* (\$13.30 plus postage, Author Aide Associates, 340 E. 52nd St., New York, N.Y. 10022; 212/758-4213). For two free guides—one on how to submit a manuscript, the other on how to find an agent—write to Authors Guild, 234 W. 44th St., New York, N.Y. 10036-3988.



## ASSOCIATIONS

### Nurses' Aid

I would welcome information on starting an association for nursing agencies.  
J.A., Edison, N.J.

There are 54 organizations focusing on various specialties within the nursing profession, including registered nurses, visiting nurses, licensed practical nurses, and allied health professionals.

Mary Park of the American Society of Association Executives recommends that you review the *Gale Encyclopedia of Associations* to see which associations now serve nursing. "Competition for members will be stiff," says Park, "and a lawyer will be needed to start an association." You can contact ASAE at 1575 I Street, N.W., Washington, D.C. 20005; (202) 626-2723.



## TRANSPORTATION

### Cover Up

Our firm manufactures truck tarpaulins. We are interested in marketing these specifically to wood-chip haulers and asphalt haulers. Where can we get a list of prospects in the continental U.S.?  
S.L., Houston

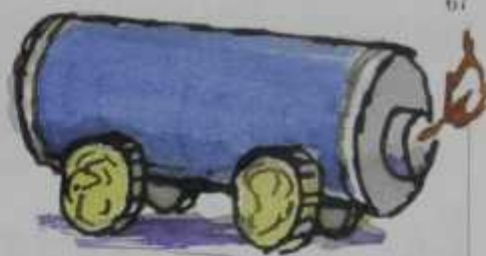
Experts in both the wood and the asphalt industries suggest that you approach the markets state by state. They point out that trucking regulations vary considerably among states; requirements typically depend on the materials that are transported and the highways that are used.

Jeff Patterson, government-affairs director for the National Asphalt Pavement Association (NAPA), recommends that you first find out what states require tarps for wood and for asphalt. Then you should obtain lists of haulers from private, statewide asphalt associations and forestry associations.

Bill Tikkala, special-projects forester for the American Forestry Association, says forestry associations can be found in most state capitals.

To obtain a list of state asphalt associations, you can contact Patterson at NAPA, P.O. Box 517, Riverdale, Md. 20737; (301) 779-4880.

Both Patterson and Tikkala suggest you ask these state associations for trucking and transport lists for specific states or areas.



## ENTREPRENEURSHIP

### Propane Power

I am interested in owning a retail propane gas company to serve rural residential customers. Where can I obtain information about this industry?  
R.B., Dallas

There are national standards for the handling of propane gas, but most states set the regulations, says Laurel Ward of the National Propane Gas Association. She suggests you decide on your market and study the feasibility of a company within that area. For more information, contact Ward at NPGA, 1301 W. 22nd St., Oak Brook, Ill. 60521.

To learn the rules and regulations that apply to zoning, contact Miriam Harris in the Small Business Department of the Greater Dallas Chamber of Commerce, 1201 Elm St., No. 2000, Dallas, Texas 75270; (214) 746-6600.

Two publications on propane gas are *Butane Propane News*, P.O. Box 419, 338 Foothill Blvd., Arcadia, Calif. 91006; (818) 357-2168, and *LP Gas* magazine, 131 W. 1st St., Duluth, Minn. 55802; (218) 723-9275.

### High Flying

Where could I find information on opening a kite store?  
J.G., Menlo, Iowa

The Kite Trade Association, at 50 First St., Suite 310, San Francisco, Calif. 94105; (415) 764-4908, will supply a member with a directory of people in the industry who would be willing to "sell you their expertise," says Steve Rubin, a director of the organization. He also suggests you read trade publications such as *American Kite* and *Kite Lines*. For current or back issues, call Windborne Kites, (408) 373-7422.

## HOW TO ASK

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The editors of Direct Line have compiled the most-asked questions into the compact "Your Small Business Survival Guide," at \$3 a copy. To order, call (202) 463-5433 or write to Diane Lewis at the address above. **B**



## COMMENTARY

# The "Savings Crisis" Is A Caricature

By Warren T. Brookes



**A**s the nation marks its seventh consecutive full year of economic expansion, the policies that generated this record-breaking recovery are still subject to scorn and doomsday forecasts.

The thrust of this attack is that the recovery has been built on the sands of debt and deficits and on a national myopia of "dissaving" by both businesses and consumers. Indeed, some say the U.S. has a "savings crisis."

Superficially, the Commerce Department data have supported that view. The department's "personal savings rate" measure has fallen from an average of 6 percent in 1980 to about 4 percent in 1987 and 1988. This, combined with continuing federal budget deficits of about \$150 billion a year, has been used to portray a nation eating its seed corn and plunging into an abyss of insolvency.

Fortunately, much of that picture is a caricature. It's partly the product of inadequate accounting in what are called the national income accounts, which measure personal savings entirely as a "residual" left over after subtracting personal consumption from personal income.

But that simplistic residual ignores important factors such as investments in homes and condominiums, in cars and other consumer durables, not to mention the value of appreciation in various investments.

Families that work hard to make high mortgage payments on strongly appreciating first or second homes, for example, may show a very low "savings rate" to the Commerce Department in terms of net cash flow, even as their actual balance sheets steadily grow stronger.

This is why serious economists pay more attention to the Federal Reserve Flow of Funds analyses of national balance sheets. Using those measures, Larry Kudlow and Lincoln Anderson, top economists at Bear Stearns & Co., say in an Aug. 10 report: "The balance sheet of American households has never looked better. Even before this year's capital gain [from the market] and saving, total net worth per household, including structures, land, and businesses, rose above \$170,000 by year-end 1988, and in 1982 dollars to \$135,000, a record high."

The report states: "Some worry about rising consumer and home-equity debt, and these liabilities have moved up. But the ratio of deposits (checking, saving, and money-market fund deposits) to total financial liabilities, while down the last two years, is still a staggering 93 percent. In other words, households can cover 93 percent of all financial liabilities with cash. And that would still leave all

their stocks, bonds, and home equity intact."

One reason for this strong position, Kudlow and Anderson say, is the strong rise in personal savings since 1987: "Over the last two years, 25 percent of the rise in disposable personal income has been put into savings." The savings rate in 1989 is back up close to 6 percent.

Also, stock equity values have been soaring—over 25 percent this year—"which adds a \$500 billion gain to direct holdings by households." Of course, critics argue that that could all be wiped out in a few hours on the stock market.

But even given the 1987 slide, the market values of equity per household have risen from about \$15,000 in 1980 to more than \$30,000 at the end of 1988; now they are just under \$37,000, a 60-percent real rise after inflation since 1980, after falling 36 percent from 1970 to 1980.

Simultaneously, total personal savings shot to \$229 billion in June 1989 from a low level of \$55 billion in the second quarter of 1987. This pushed the total national savings (personal plus corporate and government) to \$700 billion, up from \$510 billion in the third quarter of 1985.

As the U.S. Chamber of Commerce noted recently, the total 1988 savings rate as measured by the Federal Reserve was about the same as it was during the 1960s, or about 12 percent of disposable income.

So the question is why there is all the fuss about the alleged "savings crisis." Ironically, much of it is coming from those who are eager to promote a lot more government spending (consumption) but have to sell us on raising taxes first. As U.S. Chamber economist Orawin Velz warns, "artificial concern" over our alleged savings crisis "gives those who ad-

vocate tax increases a claim that consumption urgently must be discouraged through higher taxes in order to stimulate saving," by cutting the federal deficit.

But raising taxes not only would fail to lower the deficit but also would stimulate even higher government consumption, and such action also would savage the very strong current surge in personal savings under present "hold-the-line" fiscal policies.

In fact, the federal budget deficit is now down to 3.2 percent of gross national product, and together with the huge pension-fund surpluses being built each year at the state and local levels, the total government deficit in the national income accounts is now down to about 1.8 percent, one of the lowest levels for any major nation.

Kudlow and Anderson argue that the "current rise in saving is a measure of confidence in U.S. economic policy and performance." President Bush has been right to resist any tax hike and to press on for cuts in the tax rates on real savings and investment. ■

*Why all the fuss about the alleged "savings crisis"? Ironically, much of it is coming from those who are eager to promote a lot more government spending but have to sell us on raising taxes first.*

Warren T. Brookes is a nationally syndicated columnist on economic issues.



COMMENTARY

# Where I Stand

*Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.*

## 1. Mandate Employer-Paid Health Insurance?

Congress is considering legislation that would require all businesses to provide health insurance to their employees. This mandate, proponents say, would extend coverage to many of the 31 million Americans now lacking it but would not involve any government expenditures that would increase the federal budget deficit. Opponents contend

mandatory coverage would impose excessive costs on employers and reduce their flexibility to tailor benefits to employees' needs. Should Congress require all businesses to provide health insurance as an employee benefit?

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## Where I Stand VOTE On These Issues

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December Issue

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## COMMENTARY

# The "Savings Crisis" Is A Caricature



By Warren T. Brookes

**A**s the nation marks its seventh consecutive full year of economic expansion, the policies that generated this record-breaking recovery are still subject to scorn and doomsday forecasts.

The thrust of this attack is that the recovery has been built on the sands of debt and deficits and on a national myopia of "dissaving" by both businesses and consumers. Indeed, some say the U.S. has a "savings crisis."

Superficially, the Commerce Department data have supported that view. The department's "personal savings rate" measure has fallen from an average of 6 percent in 1980 to about 4 percent in 1987 and 1988. This, combined with continuing federal budget deficits of about \$150 billion a year, has been used to portray a nation eating its seed corn and plunging into an abyss of insolvency.

Fortunately, much of that partly the product of inadequate counting in what are called national income accounts, which sure personal savings entirely "residual" left over after subtracting personal consumption from personal income.

But that simplistic residue ignores important factors such as investments in homes and cars, in cars and other durables, not to mention the of appreciation in various investments.

Families that work hard to high mortgage payments on only appreciating first or second homes, for example, may show very low "savings rate" to the Commerce Department in terms of cash flow, even as their net worth sheets steadily grow.

This is why serious economists pay more attention to the Federal Reserve Flow of Funds analysis sheets. Using those measures, Anderson, top economist at an Aug. 10 report: "The balance holds has never looked better. Capital gain [from the market] and saving, total net worth per household, including structures, land, and businesses, rose above \$170,000 by year-end 1988, and in 1982 dollars to \$138,000, a record high."

The report states: "Some worry about rising consumer and home-equity debt, and these liabilities have moved up. But the ratio of deposits (checking, saving, and money-market fund deposits) to total financial liabilities, while down the last two years, is still a staggering 93 percent. In other words, households can cover 93 percent of all financial liabilities with cash. And that would still leave all

their stocks, bonds, and home equity intact."

One reason for this strong position, Kudlow and Anderson say, is the strong rise in personal savings since 1987: "Over the last two years, 25 percent of the rise in disposable personal income has been put into savings." The savings rate in 1989 is back up close to 6 percent.

Also, stock equity values have been soaring—over 25 percent this year—"which adds a \$500 billion gain to direct holdings by households." Of course, critics argue that that could all be wiped out in a few hours on the stock market.

But even given the 1987 slide, the market values of equity per household have risen from about \$15,000 in 1980 to more than \$30,000 at the end of 1988; now they are just under \$37,000, a 60-percent real rise after inflation rises.

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...and also would stimulate even higher government consumption, and such action also would savage the very strong current surge in personal savings under present "hold-the-line" fiscal policies.

In fact, the federal budget deficit is now down to 3.2 percent of gross national product, and together with the huge pension-fund surpluses being built each year at the state and local levels, the total government deficit in the national income accounts is now down to about 1.8 percent, one of the lowest levels for any major nation.

Kudlow and Anderson argue that the "current rise in saving is a measure of confidence in U.S. economic policy and performance." President Bush has been right to resist any tax hike and to press on for cuts in the tax rates on real savings and investment. ■

Warren T. Brookes is a nationally syndicated columnist on economic issues.



COMMENTARY

# Where I Stand

*Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.*

## 1. Mandate Employer-Paid Health Insurance?

Congress is considering legislation that would require all businesses to provide health insurance to their employees. This mandate, proponents say, would extend coverage to many of the 31 million Americans now lacking it but would not involve any government expenditures that would increase the federal budget deficit. Opponents contend

mandatory coverage would impose excessive costs on employers and reduce their flexibility to tailor benefits to employees' needs. Should Congress require all businesses to provide health insurance as an employee benefit?

## 2. Copy Canadian Health System?

Some in Congress favor a national medical-care plan along the lines of Canada's tax-financed system. They argue that a similar plan in the U.S. would reduce health-care costs, which now exceed 11 percent of gross national product. Those proponents point out that Canada's national health-care system costs about 9 percent of GNP. Oppo-

nents say health-care costs in Canada are increasing almost as rapidly as those in the U.S. Moreover, they point out, Canadians face lengthy waits for some procedures, and their system lacks some types of new medical technology. Should the U.S. adopt a national health-insurance system like Canada's?

## 3. Scrap Current Health-Care System?


Some frustrated lawmakers contend America's health-care delivery mechanism is broken beyond repair. They conclude costs will continue increasing at a much faster rate than inflation as long as purchasers of health services—the federal government, businesses, and individuals—lack effective means of restraining price increases. Others re-

main convinced that health-care costs can be controlled under the current system through congressional actions that would include steps to discourage the practice of "defensive" medicine and to ensure that public programs meet the health needs of the indigent. Is America's current health-care system damaged irreparably?

### Verdicts On October Poll

*Here is how readers responded to the questions in the October issue.*

	Yes	No	Undecided
Cut the tax rate for all long-term capital gains?	75%	19%	6%
Exclude some investments from capital-gains relief?	23%	67%	10%
Index capital gains instead of cutting the tax rate?	24%	59%	17%

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North American Specialty

Insurance Co. **30**

Panasonic Co. **49**

Petroleos De Venezuela, S.A. **73**

Ryder Truck Rental, Inc. **83**

South Central Bell **44**

Swintec Corp. **51**

Varco-Pruden Buildings **7**

Volvo GM Heavy Truck Corp. **65**



# Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

## Civil RICO Act Reform

Measures to reform the Racketeer Influenced and Corrupt Organizations Act (RICO) are moving in both houses of Congress.

RICO was enacted in 1970 to inhibit organized criminal activity and to pro-



PHOTO: PETER GARFIELD-FOLIO INC.

tect innocent businesses from infiltration, unfair competition, or massive fraud by organized crime. Congress intended that the statute be enforced primarily through criminal prosecutions.

However, certain provisions within RICO have allowed for private civil RICO suits to be added to ordinary commercial lawsuits. As a result, many legitimate and well-respected businesses have found themselves engaged in civil RICO litigation. In most cases, the commercial lawsuits have centered on a dispute over the interpretation of statutes or contracts and did not involve a case of major commercial fraud.

Proposals to redirect RICO to its intended purpose of attacking organized crime include H.R. 1046, by Rep. Rick Boucher, D-Va., and S. 438, by Sen. Dennis DeConcini, D-Ariz. Both bills have strong support from business and labor groups.

Contact your representative and senators, and urge them to support legislation that would preserve RICO as an effective tool against crime while preventing its use against legitimate businesses in routine disputes.

## Global Climate Changes

Recent concern over possible changes in the world's climate has received widespread congressional and international attention.

Contrary to most media reports, there is no consensus within the scien-



PHOTO: ERIC FOGENFOL-FOLIO INC.

tific community as to whether there is a global warming trend. Most experts agree, however, that the "greenhouse effect," which occurs when heat is trapped in the earth's atmosphere, is real; and there is broad agreement that it can result in global warming.

Emissions of "greenhouse" gases such as carbon dioxide from natural and man-made sources are common throughout the world. Unilateral action by the U.S. to reduce man-made emissions—taken without regard as to whether such emissions actually affect world climate—would have little impact and could jeopardize the U.S. economy.

The U.S. Chamber of Commerce believes that any man-made climate change is cause for serious concern and action. It strongly supports efforts to gain a better scientific understanding of global climate change to ensure that the right actions are taken.

Contact your representative and senators, and urge support for measures that expand research on possible changes in the atmosphere and that recognize that this is a global issue that requires international cooperation.

## Farm-Policy Reform

Congress is expected to begin work early next year on a five-year reauthorization measure that governs federal farm programs. The farm bill will have important implications for the U.S. economy, because farms and agricul-



PHOTO: EVERETT C. JOHNSON-FOLIO INC.

ture-related businesses account for 20 percent of the gross national product and provide one of every five jobs.

Prior to 1985, the federal government's policy of commodity price supports often resulted in massive overproduction of milk, grains, and other commodities at great cost to taxpayers. Guaranteed prices for certain crops encourage farmers to make production decisions based on government subsidies rather than market opportunities. Production of nonsubsidized crops, which may be in greater demand, suffers as a result.

At the same time, price supports—set higher than world market price levels—make U.S. agricultural products less competitive.

The 1985 farm bill included many market-oriented reforms that loosened the link between crop subsidies and farmers' production decisions. As a result, U.S. farm exports have increased to nearly \$40 billion annually.

Contact your representative and senators to urge their support for further market-oriented reforms. **RB**



# Editorial

*"Free-market economics has done more to alleviate ... [fear of poverty and war] than any other system."*

## Free-Market Economics: Antidote For War And Poverty

A few inches of used barbed wire would not, as a rule, seem to be a particularly impressive gift. But an American business leader who was recently presented with just such an item considers it the greatest honor bestowed on his organization.

Richard L. Leshner, president of the U.S. Chamber of Commerce, calls it "our No. 1 trophy." For this is a very special piece of barbed wire. It was part of the Iron Curtain that has kept the world divided into two opposing, distrustful, heavily armed spheres for 45 years.

Gaps are beginning to appear in that curtain. One is on the Hungary-Austria border, where the barbed wire that had formed the Iron Curtain between those two nations has been removed as Eastern Bloc nations turn increasingly outward in search of solutions to their crucial economic and social problems.

It was a section of that barrier, mounted on a plaque, that Hungarian officials presented to Leshner in recognition of the assistance his organization is giving to Hungary in its quest for economic and political reform. (Leshner is only the third U.S. recipient of the award. The other two are President Bush and R. Mark Palmer, America's ambassador to Hungary.)

The presentation to the U.S. Chamber president was made in Hungary on a recent trip that also took Leshner to Czechoslovakia. In both countries, he enthusiastically pressed the free-enterprise policies that he has carried to all sections of the globe.

The award of the plaque, Leshner said, is a recognition of the U.S. Chamber's worldwide standing as the leading champion "of freedom and free enterprise." And, he adds, both political and economic freedom form the basis for mankind's ultimate goal—world peace.

Carrying that message behind the Iron Curtain, he told an overflow audience of students and faculty members at the University of Prague:

"We're at the dawn of a new era in human history. Throughout most of history, mankind has lived under the shadow of two overriding fears—the fear of poverty and the fear of war. Free-market economics has done more to alleviate these fears worldwide, particularly in the last 10

years, than any other system that has been tried since the dawn of history."

Though preaching free enterprise to those who have been isolated from it by their governments is a major undertaking, it is only one of many components of the Chamber's global mission. Other components include:

- The Center for International Private Enterprise (CIPE), which nurtures private enterprise in many countries.
- A world network of American Chambers of Commerce (AmChams) and bilateral and multilateral business councils for interaction between U.S. and foreign businesses.
- Lobbying and litigation by the Chamber in support of freedom of international trade.
- A global communications network utilizing broadcast and print.

Hungary has been the beneficiary of Chamber activities in all these areas. In addition, Leshner has spoken with officials, business people, and students there twice since 1986. Richard Rahn, the Chamber's chief economist, is helping Hungary reform its currency. CIPE recently funded a market-economics course at Karl Marx University in Budapest. The first AmCham in Eastern Europe will open there soon. Leshner is working with the U.S. Information Agency to televise business and economic programs to Hungary.

The overall message that the business federation is bringing to nations now seeking new policies to replace badly failed ones was summed up by Leshner in a statement made in Czechoslovakia but applicable to the Chamber's world mission everywhere:

"The American business community, the United States Chamber of Commerce, and our government all care about [your] future. . . . We want you all to succeed. We want human progress through economic progress for all of the people of the world. The 21st century, we can be sure, will be exciting, will be full of challenge, full of change, and, indeed, will have the greatest prosperity we have ever seen in all of history. But the prosperity will be for those who prepare for it and produce it. It has always been the same." **IS**



PHOTO: LEE ANDERSON

**The "IRON CURTAIN" plaque given to U.S. Chamber President Richard L. Leshner contains a piece of the Iron Curtain sector that Hungary tore down. The message: "Its dismantling was made possible by the will of the Hungarian people and the recognition of peaceful coexistence and mutual interdependence. . . . We believe that the artificial, physical and spiritual walls still existing in the world someday shall collapse everywhere."**



# Free-Spirited Enterprise

*Fresh thinking from the frontiers of American commerce.*

By Janet Lowenstein

## PLAY TIME

### Reach Out And Teach Someone

How do you sell piano lessons nationwide? By phone, says Duane Shinn, owner of Keyboard Workshop, of Medford, Ore.

Shinn offers three-minute recorded lessons by phone 24 hours a day, seven days a week. The service, called Dial-a-Piano-Lesson, teaches different techniques or styles each week, such as how to play chimes or country music. The lessons promote the courses Keyboard Workshop sells on audio and videocassettes.

The only charge for the lesson by phone is the cost of the call—and the piano.



ILLUSTRATIONS: STUART ARMSTRONG

## NOTE WELL

### It's In The Pouch

Just in time for holiday giving, Peter Altman offers a way for you to make sure your gift card stays with your gift bottle. Altman, president of San Diego-

based Private Labels, produces Bottle Notes. These colorful card holders have a loop that slips around the neck of a bottle and a pouch that holds a matching card.

Sign the card, and even on the morning after, your friends will know who gave them the gift.

Bottle Notes sell for about \$1.25 each.

## HIGH FINANCE

### Street Talk

If you can't tell a high stepper from a fallen angel and think a lollipop is candy, you may have trouble following the Big Board. Kathleen Odean turns Wall Street outsiders into insiders by describing more than 500 stock-market terms in *High Steppers, Fallen Angels, and Lollipops: Wall Street Slang* (Henry Holt).

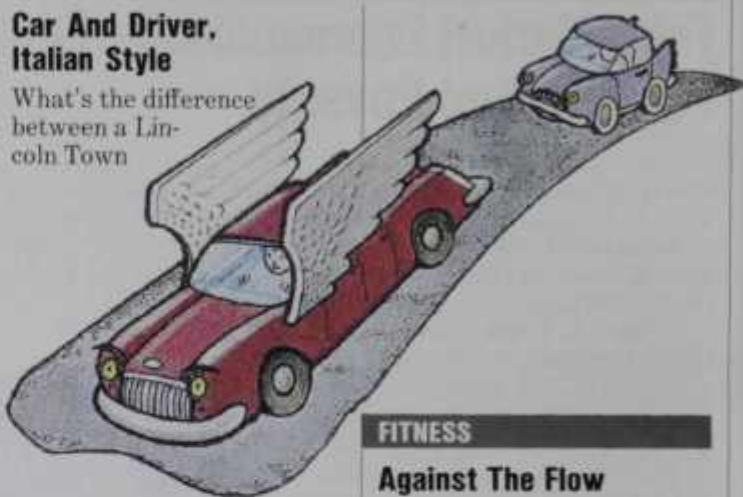
A "high stepper" is a fashionable stock, a "fallen angel" is a stock or bond that fell badly after reaching success, and a "lollipop" lets shareholders sell their stocks back to the company at a premium.



## ON THE MOVE

### Car And Driver, Italian Style

What's the difference between a Lincoln Town



## FITNESS

### Against The Flow

If you feel as if you never get enough exercise, an endless pool may be just what you need. Endless Pool Swimming Machines of New York City says its pools work like a swimming treadmill. Water is forced to flow in one direction at low pressure, and the swimmer, stroking against the tide, stays in place.

This personal-sized pool can be installed on any sound, level surface and filled with a garden hose. Priced from \$13,800.



Car and Chevrolet's Geo Metro? In Italy, about 12 miles an hour.

Under a law recently passed by the Italian Parliament, highway speed limits for cars with engines of at least 1,100 cubic centimeters will be 80 mph.

Cars with smaller engines can go no faster than 68 mph.

The new regulation replaces the speed limits of 80 on weekdays and 68 on weekends and holidays—regardless of the car's size. Italian motorists didn't like that.

And we thought parking was the problem.

## COMING FEATURES IN NATION'S BUSINESS

### Small Business

What small-business people foresee for their companies and the economy in 1990.

### Congress

A look at business issues facing the next session of Congress.

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And while Caravan C/V may be our smaller commercial, you can still opt for dual rear doors, a short or long wheel base and V-6 or turbo power.

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# MEMORIES FOR SALE

*The nostalgia business is booming as entrepreneurs become more creative in offering ways to revisit the "good old days."*





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## FEATURES



PHOTO: JIM CHAPPELL

**Nostalgia for a time** when youth seemed endless brings tourists to Graceland, Elvis Presley's Memphis estate, run by Jack Soden. On display is the pink '55 Cadillac that Presley gave his mother. Cover Story, Page 18.



PHOTO: RICH FRIEDMAN

**A customer's check** is verified instantly with a computerized system activated by cashier Janet Garguile. Page 45.

## COVER STORY

### 18 Memories For Sale

As the baby boomers trudge into middle age—the period of life when nostalgia comes most naturally—businesses large and small are inviting them to look back fondly at their younger days.

*22—A Business That Outgrew Nostalgia*

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The employee-benefits law called Section 89 is gone but not forgotten; Congress now may try to tax "excess" benefits.

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Julia Child, author of a just-published book on cooking, is encouraging business to help reshape Americans' attitudes toward food.

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Point-of-sale systems that use computers to verify checks and credit cards cut small firms' risks of nonpayment for consumer purchases.

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The Employee Polygraph Protection Act of 1988 prohibits the use of so-called lie detectors to screen job applicants or investigate employees, but the law makes certain exceptions. Here are guidelines to help employers meet the new restrictions.

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Rising costs of employer-provided health insurance are prompting firms to adopt workplace wellness programs for employees.

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Europe's planning process for economic unification in 1992 has raised many questions. Here are answers to some that are asked most frequently—and that are most important to U.S. companies.

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Settling trade disputes that could trigger economically stifling protectionism is one way that GATT, a trade treaty signed by nearly 100 nations, helps U.S. companies.

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Consumers' growing demands for service and convenience in everything from housecleaning to doctors' visits are prompting franchised businesses to go knocking on doors.

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Draft your employee handbook carefully so that you retain flexibility to manage and discipline employees. Don't let the text become a contract that ties you in legal knots.

### 52 Courts Clamp Down On Boards

Judges are chipping away some long-standing protections for board members' business decisions and are stepping in on the side of minority shareholders in closely held firms.



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## DEPARTMENTS



PHOTO: © JACKSON HILL

**Vinyl rooms** made by the Scurlock family give the earthbound a Space Walk bounce. *Making It*, Page 13.

## Editor's Note

## The Memories Business

Before Senior Editor Michael Barrier began his research for this month's cover story on the business of nostalgia, he addressed the basic question: Just what is nostalgia? The answer isn't as obvious as you might think. Anyone considering the varied business opportunities provided by the search of each generation for its past should be aware of his conclusions.

"Entrepreneurs need to realize," Barrier writes, "that nostalgia can be tricky. . . . It's not the same as enthusiasm for what's old." True nostalgia, he adds, is based on living memory, "and where nostalgia exists in a

form that astute businesses can tap, it originates less in private, personal memories than in the shared memories of a generation."

Also be aware, Barrier advises, that the fact that you are selling nostalgia doesn't insulate you from mundane business problems:

"Few if any of the businesses I examined depend on nostalgia alone for success. In most cases, their products or services have validity *now*, however much they may evoke the past. The Silver Diner's owner, for example, understands he may attract customers by summoning up their youth, but they will not eat there a second time unless the food is good."

Reality is also important in the memories business. An entrepreneur offering reproductions of a classic 1940s jukebox found that 75 percent of his customers still wanted the real thing at three times the price. Even the most faithful reproduction, Barrier tells us, "has one shortcoming that nothing can remedy: It did not exist in the past that many jukebox owners want to recapture."

On the other hand, you can have too much reality. An entrepreneur who recreated a 1950s diner decided not to offer a menu staple of that era—creamed chipped beef on toast.

Whatever business you're in, we're sure that you'll enjoy this fascinating report, which not only explores an unusual entrepreneurial niche but also provides insights into a generation on the verge of middle age.



PHOTO: T. MICHAEL KEZA

**Fifties-style** diners must serve good food as well as nostalgia to succeed, says Senior Editor Michael Barrier.

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*Robert T. Gray*  
Robert T. Gray  
Editor



# Letters

## No Parking In Family Firms

In the article "Fair Pay in Family Firms" [October], Sharon Nulton did a nice job in reviewing the issues, and [consultant] David Morris is right on target with his points.

I have only one addition: After families have worked out the details about family pay, write them down, and publish them widely throughout the family and, when appropriate, inside the business. This will make it clear to family and nonfamily alike that you operate a system based on merit, the old-fashioned, professional way.

While families are establishing fair pay on a merit system, they might also consider adopting a "no parking" policy: "We do not park unqualified family members in the business."

Such a decision would go a long way toward keeping peace in the family.

David Bork  
Coda Corp.  
Aspen, Colo.

This very useful article will help many persons with siblings in and outside a family business. However, the implication that the ownership may be bequeathed to more than one sibling working in the business needs examination.

Many professional advisers who have watched more than one generation operating a family business conclude that it is generally wise to provide a mechanism that vests ultimate control and ownership with one sibling.

The courts are filled with cases in which a surviving sibling in business is sued by an irate brother or sister (or sister-in-law, after divorce) for compensation, equity, or claims of mismanagement.

And, thinking beyond the second generation, will the business ownership and control be divided again among those of the third generation?

Flexibility and quick decision making, which are hallmarks of small-business efficiency, can be destroyed through diluted ownership and management.

Most first-generation business people who would not want to share business ownership or control with relatives [nonetheless] unwittingly—often for

tax benefit—saddle their siblings with these vexing problems.

Wilfred H. Hall  
Edgecomb, Maine

## A Voice On The Phone

Your cover story in the October issue, "Look Who's Working at Home," was very interesting and certainly reflects the many changes going on in the work-



PHOTO: ROBERT RATH—FOLIO INC.

*Even with all the advances in the electronic-answering industry, some people still prefer the personal touch.*

place today. I was disappointed, however, to see that in the box under the headline "Create Your Space, Choose Your Tools," you advised consideration of an answering machine or voice-mail system but left out a third choice—the live answering service.

In spite of the many technological advances in the electronic-answering industry, there are still those who prefer to have their phones answered by a human being, and for those working from their homes who wish to provide a professional response to their clients' calls, the live service is still a good option.

Nancy P. Ward  
President  
All Hours Telephone  
Answering Service  
Pompton Lakes, N.J.

## Circumstantial Evidence?

I read the commentary "Smart Approaches To Productivity," by Warren T. Brookes, in the October issue, where the productivity theories of John Kendrick and John H. Bishop were discussed.

I for one am getting fed up with the

way columnists are forever using correlation to "prove" cause-and-effect relationships between variables. That is, in this case, between knowledge and productivity.

Reduced to the least common denominator, correlation does not necessarily mean causality. The evidentiary case Brookes built was circumstantial at best.

Even strong correlations do not allow inferences about what causes what; they do allow prediction. Brookes, at best, can predict a relationship between "the more we know" and "the more we produce" or "as knowledge advances, so does output."

What is desperately needed in the current field of highly abstract economic theory is some solid, controlled experimentation.

I must conclude that Brookes was caught reaching in an apparent effort to support "parental-option plans" in his education-reform "debate" with what he labeled the "education monopoly." I do agree with Brookes that education must be viewed as survival for the modern world, a functional value to the culture—helping Caesar keep society in good working order.

B.J. Paschal  
Muncie, Ind.

I found the October commentary by Warren Brookes to be an extremely valuable analysis of some key research that should motivate our educational leadership to take timely, decisive action.

A concern arising from my involvement in attempts to improve education is based on the analysis that efforts to reform, redesign, or restructure U.S. education are confronting what Robert Branson of Florida State University calls "the upper-limit hypothesis." In short, his hypothesis holds that efforts to improve education within the current operational model can yield no more than 2 percent to 3 percent improvement and that the investment required to achieve that minimal gain would represent decreased return and productivity.

A fundamental change in the nature of the educational-delivery system will be required if our investments are to yield productivity gains. That change



will require thoughtful, systemic application of technology and telecommunications, as has been the case for all other U.S. enterprises that have survived the transition from a physical-goods economy to an information economy.

Indeed, the educational enterprise is the original "knowledge industry" and should be at the forefront of applying technologies to enhance what Brookes points out as the essential factor for U.S. productivity gain—"the knowledge factor."

*Gregory M. Benson Jr.*  
Director  
New York State  
Education Department  
Albany, New York

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*Stanley H. Stearman*  
Executive Vice President  
National Society of  
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Alexandria, Va.

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*Dennis N. McLellan*  
Regional Sales Manager  
Matthew Bender & Co. Inc.  
Winter Park, Fla.

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*Gregory M. Benson Jr.*

*Director*

*New York State*

*Education Department*

*Albany, New York*

## To Sell Or Not To Sell

Mark Stevens' article "Selling Your Firm May Hike Your Pay" [September] has a major flaw in its analysis. His example of the owner of a company [fictitious entrepreneur Smith] who makes \$125,000 per year and is actually receiving less than he would if he were to sell his business does not take into account any of the profits that the business may have generated.

If the company is worth \$5.8 million, surely it must be generating a substantial profit. To say that holding onto the company is costing Smith \$200,000 per year is to say that a business worth \$5.8 million is not making any money at all.

A rule of thumb in determining the sales price of a business is five times yearly earnings. Using the formula, Smith's business would generate \$1.16 million a year in profit. As sole owner of the business, Smith could take some of the earnings in the form of a dividend. This would cost him extra dollars in taxes, but he'd have a much larger income than from selling the business.

*David B. Clapp III*

*Carbonic Products*

*Santa Fe Springs, Calif.*

## Litigation Publications

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*Dennis N. McLellan*

*Regional Sales Manager*

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*Executive Vice President*

*National Society of*

*Public Accountants*

*Alexandria, Va.*

## The Ills Of Health Care

Your otherwise well-researched and thoughtful September cover story, "Curbing The High Cost Of Health Care," failed to consider the virtual monopoly of the health-care industry by the American Medical Association.

While ostensibly protecting us from quackery, our overregulated health system certainly drives up costs. It is hard to believe that we are so deluded by the myth of a risk-free society that we are afraid even to ask the questions.

How much training is really necessary to diagnose and treat a strep throat, stitch a cut, deliver a baby, set a broken bone? Let's find out, then let the patient have a choice.

A strong dose of free enterprise will bring down the fever of health-care costs.

*Peter V. Meyers*

*Green Lane, Pa.*

Fifty years ago, a visit to the doctor cost \$1, and the doctor's visit to the home cost \$2. Today, health-insurance premiums can cost as much as \$17,000 per year, even though most people never get sick.

Millions of people work 9 to 5 processing medical claims in the offices of doctors, hospitals, private businesses, government agencies, and insurance companies. Their pay does nothing but add to the cost of medical care.

Millions of older people are made sick by a blizzard of Medicare forms that mean nothing but trouble.

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# Small-Business Update

*Early intelligence on resources to help you take advantage of the changing business climate.*

## WOMEN ENTREPRENEURS

### Women Declare Global Partnership

January marks the official start of the "Decade of International Partnership," launched recently by Les Femmes Chefs D'Entreprises Mondiales (FCEM), or Women Entrepreneurs of the World.

At ceremonies this fall in Washington, D.C., and in Toronto, women business leaders from 23 countries signed a "declaration of international partnership" addressing five areas of concern: education, enterprise, innovation, communications, and environment. Signing from the U.S. was Carey Stacy of Raleigh, N.C., president of the National Association of Women Business Owners, FCEM's U.S. affiliate.

The declaration committed FCEM's 30,000 members "to policies that enhance economic growth for all the nations of the world." The section on enterprise pledges members "to foster international business and cultural exchange." The declaration was the idea of Marcia Wieder, president of Wieder Enterprises, a Washington marketing and public-relations firm, and president of NAWBO's Capital Area chapter. She says the national organization took the lead in initiating the worldwide project.

At a news conference in Washington,



PHOTO: © T. MICHAEL KEZA

*Promoting partnership among women business owners worldwide: Maria Grazia Randi, Marcia Wieder.*

FCEM's world president, Maria Grazia Randi of Italy, said the declaration promises "to create a worldwide spirit and environment for the sharing of economic and political power."

Said NAWBO's Carey Stacy: "What we're doing now is building relationships across the waters, and it's very easy, therefore, to pick up the telephone when trade issues come up."

For more information, contact NAWBO at 600 S. Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465.

## CHILD-CARE DEDUCTIONS

### Employer Guide On Support Payments Is Available

A guide for small-business employers who may receive orders to deduct child-care support from employees' pay is available from the Department of Health and Human Services. The publication, *Wage Withholding for Child Support: An Employer's Guide for Small Business*, was issued in connection with a federal/state program, effective next November, for collecting such payments. The guide outlines the legal responsibilities of employers who receive notice from state governments to deduct earnings for child support. Among the key points:

- An employer who discharges or disciplines an employee—or who refuses to hire a person—because the individual has been named in a collection order is subject to state fines.

- An employer who fails to withhold the amount specified in the state notice is liable for the full amount.

- It is the responsibility of the state, not the employer, to inform employees of withholding notices. Workers have an opportunity to contest the state ruling.

Because specific rules will vary from state to state, the HHS guide concentrates on the federal aspect of the collection program. However, it provides telephone numbers of state officials whom employers can call for answers to questions.

For a single, free copy of the guide, write to the Department of Health and Human Services, Family Support Administration, Aerospace Building, 370 L'Enfant Promenade, S.W., Washington, D.C. 20447; Attention: OCSE/POD. For 100 or more free copies, write to Child Support, Pueblo, Colo. 81009.

## LAW

### Take Care With White-Collar Exemption

Many employers are not aware that their pay policies could jeopardize their employees' exemptions from federal wage-and-hour laws, according to Venable, Baetjer & Howard, a Baltimore law firm that does much work on labor-management issues.

An employer can obtain exemptions for salaried workers holding supervisory and administrative responsibilities. Making deductions from the salaries of such workers can jeopardize the exemptions, however.

Venable, Baetjer & Howard says in a report, *Workplace Labor Update*: "Because it is essential for an employee to be paid 'on a salary basis' in order to qualify for the white-collar exemption, the employee must normally receive his or her full salary for any week in which work is performed regardless of how many days or hours were actually worked, so long as the employee actually performs some work during the given work week."

## BENEFITS

### Why Cafeteria Plans Are Lagging

If you are interested in switching your company's traditional benefits program to a cafeteria-style plan but you're afraid of the potential administrative tangle, you are not alone.

More than 62 percent of benefit managers at midsized companies without cafeteria plans say they think such plans are desirable alternatives to traditional plans, according to a national survey by Atlanta-based Confederation Life Insurance Co. The major reason they don't switch appears to be fear of potential paperwork headaches.

Among companies without cafeteria plans, 54 percent of benefit managers think the plans are hard to administer. But only 25 percent of the managers experienced in handling such plans—37 percent of the surveyed companies have them—say the plans do cause administrative problems.

Under a cafeteria plan, employees choose the types and amounts of benefits they want, subject to a cost ceiling set by the employer.



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## INTERNATIONAL

**SBA Plans Trade Fair In Seattle**

The Small Business Administration will host the U.S. government's largest, most diverse trade-promotion event ever for small and mid-sized exporters, March 27-30, in Seattle.

The event, Export Expo 1990, will include a trade fair for U.S. manufacturing and service businesses, workshops for obtaining how-to and trade-policy information, and a match-up service that will seek to link domestic producers with foreign buyers. The SBA says it is promoting the trade fair and match-up service heavily abroad and expects good attendance by foreign buyers and sales agents.

The event will be limited to 350 companies, and the SBA says not many openings remain. The registration fee is \$450, which includes a fully constructed 100-square-foot booth at the trade fair. To register or to obtain more information, contact the U.S. Small Business Administration, Office of International Trade, 1441 L Street, N.W., Washington, D.C. 20046, or call 1-800-368-5855.

## REGULATION

**Changes Sought In Regulatory Law**

Small business has not reaped the expected benefits from the Regulatory Flexibility Act, a representative entrepreneur has told Congress. Glenn Cahilly, executive vice president of Lancaster Laboratories Inc., in Lancaster, Pa., commented to the Senate Small Business Committee in testimony on behalf of the U.S. Chamber of Commerce. He pointed out that Congress had enacted the regulatory-flexibility law in 1980 "to ensure that federal regulations would not unnecessarily or disproportionately burden small businesses."

Among other things, the law requires that the federal government review proposed regulations to determine whether maximum flexibility has been allowed to accommodate small businesses' particular concerns, such as reporting, record-keeping, costs, and other requirements of compliance.

Nevertheless, Cahilly pointed out, the cumulative impact of federal regulations continues to pose "unnecessary burdens" on smaller firms. "Today," he said, "more than 100 federal agencies maintain thousands of regulations that have an enormous impact on how we live and what we do." Proportionally, he added, the cost of regulatory compliance for small firms is nearly three times that for large firms.

In urging amendments that would reinforce the law's original intent of easing the small-business impact of regulations, Cahilly recommended a broader



PHOTO: © BILL ROSS—WOODFIN CAMP

role for the Office of Information and Regulatory Affairs in overseeing the analysis of regulations issued by individual agencies.

Cahilly also urged that the same office be empowered to develop guidelines for waiving the requirement that regulations be analyzed for small-business impact.

**THIS MONTH'S NB TIPS****Small-Business Conference**

✓ The 10th National Legislative Conference on Small Business Issues, sponsored by the U.S. Small Business Administration, will be held Dec. 11-13 at the Fairmont Hotel in San Francisco. While the meeting is designed for government officials and lawmakers whose decisions have an impact on small business, entrepreneurs and others interested in small-business policy at state and local levels are also invited to attend.

Workshops cover such topics as workplace literacy, mandated health benefits, environmental programs, family and parental leave, international trade opportunities, and rural development.

For information, contact the Office of Advocacy, U.S. Small Business Administration, 1725 I Street, N.W., Washington, D.C. 20416; (202) 634-6115.

**Standard On Hazards**

✓ The U.S. Chamber of Commerce has a new pamphlet, *How To Comply With*

## VENDING

**New Campaign For Issuance Of \$1 Coin**

The vending-machine industry, made up mainly of smaller businesses, is pressing Congress to approve a \$1 coin in recognition of inflation's impact on the products sold through its machines. Bills before the banking committees of Congress would authorize a dollar coin bearing a likeness of Christopher Columbus.

Any proposal for a dollar coin runs head-on, of course, into the debacle of the Susan B. Anthony coin, first issued a decade ago. It never was accepted by the public, a development attributed to the alleged difficulty of distinguishing it from a quarter. Its size was between that of a quarter and a half-dollar.

The current approach calls for the \$1 coin to be the same size as the Anthony coin but gold-colored and smooth-edged to distinguish it from the quarter.

Richard Funk, chief counsel for the National Automatic Merchandising Association, says success of a \$1 coin requires phasing out the \$1 bill. Failure to take that step doomed the Anthony dollar, he says.

Funk rejects arguments about confusion with the quarter: "The Susan Anthony coin was never circulated, and there was no opportunity to confuse it with the quarter."

Congressional action on the coin measure is expected to begin in the Senate Banking Committee, but the bill under consideration does not provide for phasing out of the paper dollar.

*The OSHA Hazardous Materials Standard Rules.* It discusses the Hazard Communication Standard, which applies to U.S. employers. The standard is an updated version of the Occupational Safety and Health Act of 1970, which requires employers to furnish a workplace free from known hazards and to meet certain standards for employee health and safety.

The standard is not a strict directive. Instead, it allows employers to develop programs suitable for their needs around general guidelines of performance goals and minimum requirements. The brochure explains the types of companies that must comply with the standard, the compliance requirements for employers, the penalties for non-compliance, and how to determine hazards.

To order, call Publications Fulfillment at 1-800-638-6582. In Maryland, the number is 800-352-1450. Give order number USCC-2011.

There is no charge for orders of fewer than 100 copies. For 100 copies or more, the charge is 10 cents for each additional copy. **NB**





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# Dateline: Washington

*What's happening in the corridors of power that will affect your business.*

## GOVERNMENT

### Congressional Action Urged To Cut Health Costs

Small companies are being squeezed out of the health-insurance market by rapidly rising costs and shrinking ac-



PHOTO: © TERRY ASHE

Robert E. Patricelli represents the U.S. Chamber at a House hearing.

cess to coverage at any price, business spokesmen warned during a recent congressional hearing.

About 35 million Americans lack health insurance; two-thirds are full-

time workers or their dependents. While small-business groups strongly oppose government-mandated coverage of all workers, there is a growing consensus that there is a role for Congress in eliminating barriers that the federal and state governments have erected to adequate coverage. Speaking on behalf of the U.S. Chamber of Commerce, Robert E. Patricelli, president of Value Health Inc., an Avon, Conn., managed-care company, recommended that Congress take the following steps:

- Give companies that buy their health insurance the same exemption from state-mandated coverage requirements that self-insured company plans already enjoy. This would allow insurers to offer more affordable plans.

- Allow self-employed individuals and unincorporated firms the same 100-percent federal tax deduction for their health-care costs currently allowed larger, incorporated businesses. Self-employed individuals and unincorporated firms are now limited to a 25-percent deduction, which some say discriminates against small business.

- Simplify the complex federal laws governing multiple-employer trusts, which permit small businesses to join in purchasing health insurance at lower rates than they would have to pay as individual firms.

## SOCIAL SECURITY

### Payroll Taxes Will Go Up Jan. 1

There will be a double-barreled increase in Social Security taxes next year. The tax paid by both employer and employee will go to 7.65 percent from 7.51 percent. The wage base—the maximum amount of earnings subject to the tax—will be increased from \$48,000 to \$50,400.

For the self-employed, the tax remains the combined total of an employer/employee contribution—15.30 percent next year on the same wage base.

To ease the impact of that rate, the self-employed had been allowed a credit of two percentage points against their Social Security payments, but a new arrangement goes into effect in 1990.

Half of the Social Security taxes paid by the self-employed will be tax-deductible, with an individual's tax bracket determining the amount of the savings.

The tax-rate and wage-base increases are going into effect under provisions of a 1977 law passed to keep the system solvent.

The forthcoming rate increase will be the last of seven such increases that are scheduled in the law, but the wage base will continue to rise annually according to increases in the average wage.

## COPYRIGHTS

### Bill Targets Copyright Infringement By States

States, their public universities, and other state entities could be sued for copyright infringement, under a bill passed by the House of Representatives and sent to the Senate.

States and their instrumentalities are now exempt from such suits as a result of federal court decisions.

In urging passage of the bill to remove that exemption, Rep. Robert W. Kastenmeier, D-Wis., said that present policy denies copyright holders the statutory damages and attorneys' fees they can claim in infringement suits against parties that do not enjoy the states' current immunity.

"These kinds of recoveries are often essential to protect the rights of individual authors and small entrepreneurs," Kastenmeier said.

## PRODUCT LIABILITY

### A Brighter Outlook For Product-Liability Reform

Growing bipartisan support for a uniform federal product-liability law was reported by the legislation's chief House sponsor, Rep. Thomas A. Luken, D-Ohio.

Luken's bill would establish uniform rules and would clarify rights and responsibilities in lawsuits against product manufacturers, distributors, and sellers.

Its supporters contend it would end the current confusion caused by each state setting its own rules, based on separate state laws and often-conflicting court interpretations.

The adoption of a uniform federal product-liability law is widely supported by business groups, including the U.S. Chamber of Commerce.

Luken's bill is patterned after a simi-

lar measure that cleared the House Energy and Commerce Committee in the last session. That bill died in the Judiciary Committee, through which Luken's bill also must pass on its way to a vote by the full House.

Luken said the Energy and Commerce Committee, of which he is a senior member, is insisting that Judiciary "take the lead" this time around. Luken said the new Judiciary chairman, Jack Brooks, D-Texas, "doesn't have the same antipathy toward it" that his predecessor, Peter W. Rodino, D-N.J., had shown. "The best promise we've had is that they will" hold legislative hearings on the measure "in January."

Luken discussed the product-liability issue before the Breakfast Bunch, an informal organization of Washington-based corporate representatives organized by the U.S. Chamber of Commerce. **B**



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# To Make The Grade, Just Go Do It



By Curtis Grant

**A** course for entrepreneurship majors that I took last semester at Baylor University, in Waco, Texas, offered many lessons, but the primary one for me can best be described in the words of an advertising campaign for Nike Inc.: "Just Do It!"

I am sure most Americans at some time dream about owning a business. I often hear people talk about starting one, and I also hear excuses: They don't have the time or money to get started, or they can't give up their job security, or their idea is probably one that somebody else has already thought of. Such people seem to be waiting for some magical moment that may never come.

That kind of moment did come for me, although I admit that I didn't simply decide to "just do it." It was an assignment. The entrepreneurship course at Baylor required that teams of students start business ventures, and the grades for their efforts were based on soundness of ideas and management.

Three other young men and I formed a company that developed and marketed what we called the "Pocket Roster"—a directory of names and phone numbers of members of sororities and fraternities on campus. Small enough to fit in a wallet or purse, it would be a boon to students unable to consult existing rosters, which were too bulky to carry, or to get current numbers from the phone company's directory, which can't keep up with students' frequent moves.

At first, our roster was to be a folded sheet with three credit-card-size sections. Two advertisements could be sold to cover some of the printing expense. Selling the roster itself would cover the rest of the costs and, we hoped, would give us a profit.

Fortunately, we stopped to figure out how much revenue we needed to break even. As a result, we changed to six credit-card-size sections, with room for five ads. Also, we targeted only 10 fraternities and sororities instead of all 24 on campus—after concluding that several clubs were too small to provide worthwhile markets.

We discovered lessons in every decision. Among them: **Initial capital is hard to find.** Being college students, we didn't have much money to invest. Advertising was our only source of outside funds, and roster production didn't begin until we sold three ads for \$200 each.

**Pricing is important.** We sold the rosters for 50 cents each, a figure based on no tangible information. Later, after several customers told us they would have paid \$1 apiece, we wondered if we should have charged more.

**Publicity can be useful.** Our company contacted the Baylor student newspaper and received free exposure in a front-page article that quickly helped make our target market aware of our product.

**Be skeptical of spoken assurances.** A printer gave us

an inaccurate price quotation and also missed the promised delivery date. The printing of the rosters was finished several weeks behind schedule.

**Timing is crucial.** The product was more popular than we expected, but we could not bring it out until late in the semester, which cut our selling time.

**Personal selling skills are vital.** You wouldn't believe how much I was shaking when I walked into that first campus meeting to present our product. I faced more than 100 people waiting for me to talk. Would they laugh at me and at the idea? Or would they buy the product? They bought—50 rosters!

**Nothing can replace preparation.** Because we didn't always do research, we made decisions that we later wished we could reverse. For example, the last advertiser we dealt with wanted white printing on a black background. We agreed to the request without first checking the cost of the special printing, and we lost money on the ad.

The primary lesson we learned through the experience is that even if you have the world's best business idea, it will do you no good unless you act on it. To paraphrase an adage, people who want milk should not sit on a stool in the middle of a field in hopes that a cow will back up to them.

Although our small venture had a high profit margin, it did not earn us a lot of money. We had \$430 in net profit on \$1,450 in gross revenue. We sold 1,300 rosters and four of our five ad spots—to a gift shop, a clothing store, a dry cleaner, and a retailer of electronic products. Yet

there were benefits that can't be measured in money.

First, I had the satisfaction of knowing that of the eight class ventures, ours was one of only two that didn't lose money. In addition, I received a respectable if not optimal grade in the course—a B-plus.

And how proud I felt each time I saw a student using one of our rosters!

Most important, however, were the lessons my partners and I learned about running a business. I expanded our enterprise into University Products Co., which produces Pocket Rosters for marketing at major colleges throughout Texas, and they went their separate ways. Although we are no longer together, we still share what we learned, which starts with the knowledge that success is possible if you "just do it." ■

*Curtis Grant, 23, receives a bachelor's degree in business administration this month from Baylor University, in his hometown of Waco, Texas.*

*Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.*

*Even if you have the world's best business idea, it will do you no good unless you act on it. . . . people who want milk should not sit on a stool in the middle of a field in hopes that a cow will back up to them.*



# Making It

*Growing businesses share their experiences in finding and marketing new products and services.*

## Winning In A Walk

**A**s thousands of young people—and some who are just young at heart—jump, slide, climb, or bounce on Space Walk Inc.'s creations, their smiles and giggles present indisputable evidence that the 30-year-old company's registered trademark, "Here comes fun," is no idle boast.

Space Walk makes air-inflated vinyl rooms with billowing floors. Walking on them calls to mind the way astronauts look when they are walking in space while tethered to their modules—hence the company's name. Space Walk products beckon fun seekers in most major amusement parks in the U.S. and several foreign countries. One of Space Walk's biggest efforts, the Space Pillow at Houston's Astroworld, is the second most popular attraction at that park (a roller coaster is first).

Smaller Space Walk models turn up in back yards and at festivals in many Sun Belt cities. "Hundreds of birthday parties, school and church fairs, grand openings, and other events are enlivened by Space Walks every week," says Frances Carr Scurlock, coordinator of the company's 25 rental franchises.

Frances Scurlock's husband, Space Walk President John T. Scurlock, 62, is an electrical engineer who holds patents on six inventions. He came up with the idea for Space Walk in 1959, while watching his employees jump on partly inflated air-bubble domes. Scurlock invented the domes, which are used as covers for tennis courts and swimming pools, and was making them as a sideline to his full-time job as a college teacher. Space Walk Inc. still manufactures such vinyl covers at its suburban New Orleans plant.

Three of the Scurlocks' four sons are active in the family business (the oldest

son has left the company and is now a computer programmer). Steven, 35, supervises the production room, where yards of vinyl materials are sewn into air domes, Space Walks, and other air-inflated creations, such as the cartoon-character and beer-can balloons displayed in many parades. Jeffrey, 31, is in charge of the tent division, a full-service rental agency that supplies tents, chairs, flooring, catering, light-

ing, and entertainment for weddings and other outdoor gatherings.

Frank, 27, the Scurlocks' youngest son, and his wife, Patty, operate the Fun Factory, an indoor amusement park designed by Frank. The 18,000-square-foot building in New Orleans has a rotating stock of several dozen soft play devices.

"Fun Factory has been successful from the beginning," says Frank, "even



PHOTO: JACKSON HILL

*In a bouncy Space Walk room, the firm's family: Patty and Frank Scurlock seated with son Mials; standing, Frances Scurlock, son Jeff, President John Scurlock, son Steve.*



## MAKING IT

though we opened three years ago in the middle of New Orleans' economic downturn. It grossed \$500,000 in 1988." (The Scurlocks will not reveal gross revenues for the company as a whole.)

Some of Space Walk Inc.'s products are used in more serious circumstances. "We make a rescue cushion called Air Pack that inflates in two minutes," says John Scurlock. "Air Packs are used in most major cities in the United States, and in several foreign countries, to prevent suicide attempts and rescue people when fire forces them to jump from tall buildings." The huge air pillows also break the falls of stunt crews who jump out of buildings in movies such as "The Towering Inferno."

Other industries employ Space Walk creations in a variety of situations. Shipbuilders like New Orleans' Avondale Shipyards protect steel machinery from the elements with Space Walk air domes until time for installation. The same principles used to form an air-inflated tunnel for the Fun Factory were employed in manufacturing a larger chute that makes transferring people from a ship to an offshore oil rig safer when seas are rough.

Space Walk's five divisions in New Orleans employ 20 full-time and 35 part-time workers—and the Scurlocks keep coming up with new products.

Pointing to a metal box and tube attached to a five-gallon bottle of spring water sitting on his office floor, John Scurlock explains his latest invention. "This little gadget, the Aqua Lift, is going to save a lot of backache," he declares. "Customers of spring-water companies will not have to lift heavy bottles any more because the Aqua Lift sucks water from the bottle and passes it into the dispenser." The Aqua Arc, a sister apparatus, funnels spring water into refrigerators equipped with spigots for dispensing cold water.

Frank Scurlock's year-old son inspired the design of a 5-foot-square playpen. Frank and Patty say that the playpen provides a safe environment and requires no assembly; it is—you guessed it—inflatable.

—Mary Fonseca

## From Sawdust To Sawbucks

**A** Bealeton, Va., company is turning sawdust and other waste wood into pellets that may persuade thousands of homeowners in the Northeast to say goodbye to their axes and chain saws this winter.

Modular Energy Co. says its oak pellets are cleaner, more convenient, and cheaper to burn than cordwood. "The

average homeowner burning our product around the clock will spend only \$3 a day during the heating season," says Jack Warf, 50, MEC's president.

Warf claims that one ton of pellets can produce heat equivalent to that produced by a cord and a half of firewood. The firecracker-sized pellets sell at retail for \$130 to \$160 a ton, versus about \$200 a cord for firewood.

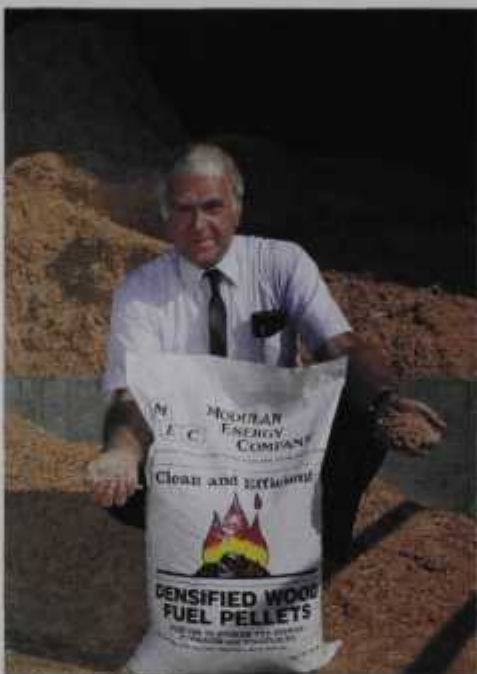


PHOTO: © ROSS W. SIMPSON

**Wood scraps and sawdust are turned into fireplace fuel pellets by Jack Warf's Virginia-based company.**

"What's more," says Warf, "wood pellets are much cleaner than cordwood. They don't leave telltale dust on tables, and contain no creosote to foul up your chimney."

Popular for years on the West Coast, wood-pellet stoves have been slow to make their way east. The stoves range in price from \$1,400 to \$2,500—a few hundred dollars higher than their wood-burning cousins, but Warf says their convenience is worth the extra money: "No more huffin' and puffin' while cutting, stacking, and hauling firewood into the house." MEC packages its wood pellets in 40-pound plastic bags.

From the outside, pellet stoves look a lot like wood stoves, but there's a world of difference behind the glass doors. For one thing, instead of getting up in the middle of the night to feed your wood stove, you can let the pellet stove feed itself automatically, for as long as two days. This insures cleaner combustion and uniform heat output. Once its hopper is filled, a pellet stove needs no more attention until the removal of a minimal amount of ash.

MEC makes its pellets in a "pelletizer" of the kind used to produce animal

feed. To make the pellets, sawdust is forced under pressure through 3,000 openings in a circular die. Sawdust that fails to make a pellet on the first try is collected and fed through the "pelletizer" again, until every ounce is made into a usable product.

Waste wood of the kind used to make the pellets "could contribute to overcrowding at landfills and contaminate water supplies if left on the ground to rot," says Don Beasley, 58, a chemical engineer who is MEC's vice president. Most states no longer permit the dumping of waste-wood scraps or sawdust on open ground. Woodmark, a cabinetmaking firm in Orange County, Va., supplies Modular Energy with waste wood.

Warf, Beasley, and some other investors formed MEC and built its \$1-million pellet-making plant last year. Warf, a native of West Virginia who once was a Washington, D.C., firefighter, owned a landscaping firm in suburban Washington and then a coal-mining company in West Virginia before he and Beasley met, about 10 years ago.

Then, Warf was exploring the possibility of selling coal in bags to the residential market, and Beasley was running a large North Carolina plant, owned by the Pullman Corp., that made wood pellets for the industrial market. They talked about opening a pellet plant in Virginia, but with the decline in oil prices, the industrial market for wood pellets dried up.

Their idea sat on the back burner for a few years, while Warf pursued other energy-related businesses and Beasley worked for a consulting firm. Then, in the mid-1980s, after the pellet-burning stove was introduced, Warf started pulling together the financing for MEC. "Jack has really been compelled to be in this business," Beasley says. Today, Beasley and plant manager Chuck Satera run the company day-to-day at Bealeton, while Warf works out of an office in nearby Manassas.

Warf and Beasley "are sitting on top of a gold mine," says Fred Griffin, national sales manager for Sierra Manufacturing Co. of Virginia, a Harrisonburg, Va., firm that is one of the nation's leading wood-stove manufacturers. "Retail stores have been waiting for years for a reliable supplier of wood pellets, and MEC is the sole source on the East Coast."

The Bealeton plant can produce 25,000 tons of wood pellets a year without major alterations. But with sales expected to top \$2.5 million this year, the plant may be running at capacity by the end of the heating season. Jack Warf is already talking about building more plants in Virginia and neighboring states.

—Ross W. Simpson





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## MAKING IT

## The Man With The Hammer

**J**im Gall is an outgoing, likable fellow who radiates self-confidence—and as a professional auctioneer, he often needs it. When he faces an audience and breaks into his mesmerizing, rapid chant, he has to believe he can sell anything.

Gall's unconquerable optimism has helped propel him to the top rungs of his profession. A born entrepreneur—"I've been selling something or other since I was 6 years old"—Gall made a couple of turns around the well-worn business path of start-up, high hopes, and disappointment before a crucial self-analysis led him at 33 into the burgeoning field of auction marketing.

That was 10 years ago. Today, Gall's services are sought internationally by real-estate developers, lenders, and government agencies that want to move luxury, hard-to-sell, and foreclosed properties in a hurry without taking a financial beating.

His Miami-based Auction Co. of America, which he founded in 1979, is among the largest auction houses specializing in real estate. Its 35-member staff has conducted major property auctions in 32 states and several foreign countries.

This year the firm expects to sell about \$175 million worth of almost every kind of real property—from entire communities to a 17th-century French chateau. In 1988, the company auctioned \$100 million in properties, and the year before that, \$50 million. The firm's commissions on gross sales vary from 5 percent to 10 percent.

Gall's privately held business is prospering on a trend that began in the early 1980s. That's when lending institutions, in particular, discovered auction marketing as an effective way to move the huge inventories of defaulted properties that accumulated with the collapse of the oil and real-estate booms in many parts of the U.S.

What surprised many sellers about the auction process was not so much how fast they could move properties as the prices they got—in most instances near the appraised value. Very little of the property sold at auction had to be unloaded at bargain-basement prices.

Before he discovered auctioneering, Gall spent much of his life in search of just the right business. After college and a brief stint with the Du Pont Co., he decided that corporate life was not for him, and he and a partner started an office-supply firm. But Gall yearned for something more satisfying.

He thought he found it in "scratch 'n'

sniff" T-shirts, an idea he conceived upon hearing about a new method of applying artificial aromas to paper, cloth, or other material. Scratching the material would release whatever scent had been applied. Calling his company Smell It Like It Is, Gall made up some shirts with the aromas of root beer, pizza, orange, and strawberry, and he sent them to a host of entertainers and

on the road to gaining that critical but elusive experience.

More jobs came along. He sold cars, antiques, and surplus goods—everything from a chair shaped like a baseball mitt to a wax statue of Richard Nixon. Honing his showman's skills, he dressed for auctions in a tuxedo and ferried clients around in a limousine.

Gradually, Gall began to see real es-



PHOTO: © RICK FRIEDMAN—BLACK STAR

**With unconquerable optimism and a flair for the distinctive chant of his profession, Miami auctioneer Jim Gall moves real estate, such as this Chatham, Mass., development of town houses and commercial properties.**

media organizations. The product sold well for a while, but then the fad died.

That's when Gall accorded himself a serious self-examination. "I hadn't really found my niche," he recalls. "I prayed that I'd find a business that would allow me somehow to use the talent God gave me. The answer hit me like a ton of bricks: auctioneering."

In a two-week course that Gall describes as "Auctioneering 101," given at a school in Kansas City, Mo., Gall learned how to combine words and numbers in that special way that is known as the auctioneer's chant.

The hardest part came next. The field is a tight, highly competitive one. For clients, an auction is a one-time opportunity to realize top return, and they usually look for highly experienced auctioneers with proven track records.

"I literally knocked on doors looking for a chance," Gall says. "Every time I heard about a sale or even a possible sale, I went out looking for the job." That persistence paid off. He made a cold call on a North Miami store that was going out of business, and the owners agreed to let him auction off the stock and fixtures. That job started him

tate as "the real future of auctions." Since 1982, his Auction Co. of America has handled only real-estate sales. His big break came in 1986 when the Federal Deposit Insurance Corp. chose his firm to auction 445 foreclosed properties in Lafayette, La. "We sold 430 of those properties at 80 to 100 percent of appraised value in two days," Gall says. That performance won his firm a letter of commendation from the FDIC—and access to other government and private auction opportunities.

The company has now sold at auction some 12,000 pieces of property. Ahead, Gall sees nothing but more growth for his company and for auctioneering generally. He believes the future of real-estate auctioning is assured by, among other reasons, the government's plan to sell off \$100 billion, perhaps more, in assets of failed savings-and-loan institutions. Gall was instrumental in persuading Congress to allow some of those assets to be sold by the auction process. "It will be the largest sale of real estate in the history of the world," he says, "and we want to be a part of it."

—Donald C. Bacon



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# Memories For Sale

By Michael Barrier



PHOTO © WAYNE SORCE

**J**ohn T. Johnston's store lies in the Bay Ridge section of Brooklyn, an hour's subway ride from Manhattan. Toys and knickknacks pack the front window—gum-ball banks, Howdy Doody watches, a statuette of the RCA Victor dog. But Johnston's real business is not selling toys for children. He stocks such items so Dad can pacify his kids while he buys his own grown-up toy. A very expensive grown-up toy, one that bubbles and changes colors and sings "Johnny B. Goode" or "Wake Up Little Susie." John T. Johnston rebuilds and sells old jukeboxes.

To get into his store, Jukebox Clas-

*The Wurlitzer 1015, center, from the '40s is the jukebox "everybody takes off on," says John T. Johnston, who with his wife, Wendy, owns Jukebox Classics in Brooklyn.*

sics, you have to press a buzzer; Johnston doesn't encourage browsers. And he doesn't need to. "A lot of people buy without even looking," he says. "They just call, and we ship to them."

Johnston, 47, sells to people like George Sideris, 42, a hotel owner who lives in Marlton, N.J., near Philadelphia. Sideris bought his first jukebox—a Wurlitzer 1015—from another dealer

eight years ago. He wanted to furnish a bar in his home, Sideris says, and "I just felt a jukebox was appropriate."

Johnston calls the 1015 "the bubbler" because of the bubbling columns of liquid that frame the front of the machine; it is, he says, "the main one everybody takes off on." Wurlitzer made 56,000 "bubblers" in 1946 and 1947; Johnston estimates that perhaps 10,000 survive.

He relies on word of mouth for his customers, and Sideris heard about Johnston a couple of years ago. Since then, Sideris has bought five more classic jukeboxes from Johnston—four Wurlitzers and a Seeburg—and displays all six in two rooms in his house.



*As the baby boomers trudge into middle age, businesses large and small are inviting them to look back fondly at their younger days.*



PHOTO: © JIM CHAPPELL

For all the attention focused on the 1015, Sideris says, he prefers the looks of the Wurlitzer 800, made in 1940—"it's a real massive machine."

The 1015 is, however, considerably more expensive. You probably could find a restored 800 for around \$8,000, but if you wanted to buy a like-new 1015, you could expect to pay \$13,500 for it—and, Johnston says, the price has been going up \$1,000 a year.

For your \$13,500, you would get something less than a state-of-the-art sound system. The 1015, like the other jukeboxes made in the '40s, plays only 78 rpm records, and, Johnston says, "the old ones are temperamental."

**Elvis Presley** bought this 1955 pink Cadillac for his mother. Now it's the centerpiece of the new automobile museum at the late singer's Memphis estate, Graceland.

George Sideris agrees, but, he says, the old Wurlitzers are relatively easy to work on; "you can get into them and figure them out." When his Seeburg conked out, he had to send it back to Johnston for repairs.

As for the records, you can buy used 78s—at prices ranging from 25 cents to hundreds of dollars—from a handful of dealers like Morton Savada of Records

Revisited in New York; 78s didn't expire completely until the late '50s, so early rock 'n' roll records can be found in that format. Or you can buy new 78s. Rhino Records has issued two sets of them, one each of songs from the '50s and '60s, complete with printed title strips to fit in the slots on the front of your jukebox. A box of 25 records—50 songs—will set you back \$125, or five times as much as you might pay for the same songs on a couple of compact discs.

If you're really interested in saving money, consider that for about one-third the cost of an original Wurlitzer 1015, you can buy a reproduction that



## COVER STORY

plays 45 rpm records, has stereo sound, and doesn't break down as often, if ever. Johnston started selling reproductions last year, but the old "jukeboxes" still account for 75 percent of his sales, and Johnston himself isn't much interested in the new machines. He started his business because he and his wife, Wendy, 44, love old jukeboxes—they have four at home—and he finds the new versions somehow lacking. "I think they're great boxes for what they are," he says, "but I'm still a purist. I don't have a reproduction at my house."

However good a reproduction jukebox may look and sound, it has one

gia is *always* sweeping the country; there is *always* a nostalgia boom. From year to year, the only difference lies in who is feeling nostalgic about what.

Most people, as they approach middle age, sense that their lives have settled into patterns that may not change significantly for many years to come. They look back longingly at a time when youth seemed endless and opportunities boundless. We are now at a peak in the nostalgia cycle because so many people are reaching an age when nostalgia comes most naturally.

The oldest of the baby boomers—the 75 million Americans born in the 20

can tap, it originates less in private, personal memories than in the shared memories of a generation.

The baby boomers, it's clear, share particularly strong, fond memories of the popular music of their youth. Relatively few people feel such strong nostalgia for the music that they will pay thousands of dollars to hear it from a period jukebox, but millions will pay smaller amounts to put themselves in touch with the music, and the era that gave it birth, in some other way. Businesses of many kinds are trying to meet that demand, some by appealing almost wholly to nostalgia, others by using nostalgia as one ingredient in a more complex mixture.

Some people do feel a nostalgia as intense, if not as hard on their bank accounts, as that of jukebox owners. One store that serves such people can be found north of Philadelphia, in a strip shopping center in Levittown, Pa., where Ron and Linda Cade do business under the name Memphis Memories. Their stock consists entirely of Elvis Presley items—some new, like a replica of his sunglasses and a miniature of his tour bus, and some available only on the collector's market. Among the latter: bottles of "Always Elvis" wine and "Love Me Tender" conditioning rinse.

His customers come from all over the Northeast, Ron Cade says. "Just yesterday, a family came from Binghamton, N.Y. The Elvis people, they travel." He does a lot of mail-order business, too, some of it with foreigners. His average sale tends to be large; Cade cites one customer who spent around \$250 during one visit, on out-of-print albums, a jacket, a T-shirt, a collector's plate, and an Elvis trivia game.

Memphis Memories is a special sort of business, for a special sort of clientele—people who share the devotion to Elvis that Cade, 37, has felt since 1957, when at the age of 5 he first heard Elvis sing "Hound Dog." The store is as much a clubhouse as a retail establishment. Posters of Elvis cover the walls, Elvis videotapes run constantly on a TV set with folding chairs set up in front of it, and, as Cade says, "we don't have anybody in suits and ties running up and saying, 'Can I help you?' It's a very relaxed, laid-back thing. They know they can come in here and watch Elvis, talk Elvis. They like that, and we like doing that for them."

The store does well enough that the Cades have run it full time for about four years. Cade used to work in radio, and he got the idea for his store while he was hosting an all-Elvis radio show. Listeners called to ask where they could buy Elvis merchandise, and some asked that the Cades buy items for them at Graceland, the Presley man-



PHOTO: © WARREN FAUBEL

**Rhino Records' founders, Richard Foos and Harold Bronson, have built their \$20-million Santa Monica, Calif., company on reissues of rock 'n' roll.**

shortcoming that nothing can remedy: It did not exist in the past that many jukebox owners want to recapture. It cannot fully satisfy the craving that leads people to buy jukeboxes in the first place. "Mostly," Johnston says, "it's to bring back when they were kids."

**N**ostalgia is like sex: Every generation thinks it is discovering it for the first time.

"Nostalgia for the American dreamland is sweeping the country like a Kansas twister," said a national magazine in what may sound like an up-to-the-minute description of the current nostalgia boom—but that article was published almost 20 years ago. Nostal-

years after World War II—are entering their mid-40s. Just as the boomers' numbers generated a highly visible "youth culture" 20 years ago, so they now magnify a middle-aged looking back. For U.S. businesses, already adjusting in other ways to the "graying of America," that nostalgia is one more element to take into account.

Entrepreneurs need to realize, however, that nostalgia can be tricky. It's not the same as enthusiasm for what is old; no one considers an interest in Queen Anne furniture or ancient Egyptian statuary "nostalgic." True nostalgia isn't based on simple admiration for the artifacts of the past, but on living memory of them; and where nostalgia exists in a form that astute businesses



sion in Memphis, which the Cades visit every year.

Graceland has been open to the public since June 1982, and it has become a business of a very different order of magnitude than Memphis Memories. Elvis Presley Enterprises, most of whose income Graceland generates, will tally revenues this year of \$15 million or so. Last year, 660,000 people visited Graceland; this year, the figure will probably top 675,000. Of that number, says Jack Soden, Graceland's executive director, "the vast majority are mainstream Americans, the same people who are going to Walt Disney World and supporting tourism all over."

Still, as Soden acknowledges, "our demographics are skewed from what you'd find at a theme park." Even though the number of teen-agers and young adults has been growing, Graceland's visitors tend to be middle-aged—people who listened to Elvis in the first flush of his popularity, in the '50s and '60s. As Soden (who is 43 himself) says, "There are kids back at the hotel pool while Mom and Dad are here."

When Graceland opened to the public, Soden recalls, there was widespread skepticism about whether it would be successful as a tourist attraction. The feeling was, he says, "a couple of hundred thousand may come, but that'll be it," as what was assumed to be a shallow well of nostalgia for Elvis was drained. The Presley estate spent a little over \$500,000 to open Graceland; it recouped that money in 38 days. Says Soden: "We've been very profitable every step of the way."

If there is a secret to Graceland's success, it may be that Soden and his colleagues have not squeezed too hard on Elvis Presley's nostalgic appeal, but have instead treated him as a figure whose significance transcends nostalgia. As Soden says, "The flavor of the attraction at Graceland doesn't necessarily require an overwhelming interest in Elvis Presley. Right from the beginning, there was a philosophical decision that we'd treat all 14 acres as a historic site, and try to present it and maintain it just as it was."

The straightforward guided tour of the mansion treads a fine line between the twin temptations of oily reverence, on the one hand, and tongue-in-cheek mockery, on the other. (The latter temptation might seem especially severe, considering that the mansion holds, among other things, a grand piano covered in gold leaf, a billiards room smothered in chintz, and the ineffable "jungle room," with its carpeted ceiling and pseudo-Polynesian furniture carved in the shapes of animals; as the tour guides always point out, Presley chose all the "jungle room's" furniture

himself, in a 30-minute visit to a Memphis store.)

The new automobile museum, which opened across Elvis Presley Boulevard from the mansion last summer, holds 20 vehicles, including the 1955 pink Cadillac that Elvis gave to his mother and his own 1956 black Lincoln Continental, both restored to sparkling perfection. Also on view: Elvis's gasoline credit cards. It all might seem a bit much, but the museum is a wittily designed building, with the cars lined up alongside a tree-lined "highway" that encircles a "drive-in theater" (the 38 seats are from '57 Chevys) showing rowdy clips

the customers at Memphis Memories, too. "We sell it all," says Ron Cade, "but Elvis was and is the music. When you hear 'Elvis,' you're not thinking of Elvis's face on a drinking mug, you're thinking of the music." And just how good is Presley's music? Says Soden: "I think time will be kinder and kinder."

About a dozen small companies now specialize in reissuing rock 'n' roll, typically licensing songs from other record companies, and sometimes buying other companies' catalogs outright. Although some of the reissue companies may simply be cashing in on nostalgia, more of them probably owe their exist-



PHOTO: T. MICHAEL REZA

"There's Elvis, and then there's everybody else," says Ron Cade, whose Levittown, Pa., shop, Memphis Memories, specializes in Presley memorabilia.

from Elvis movies. Here, as elsewhere in the Graceland complex, the implicit message is: We think Elvis was important enough that we should give you the chance to examine microscopic details of his life, but if you're not *that* interested, we'll understand.

Soden speaks of treating Graceland as "the record of a career that was a very strong influence on more than music," but it is Presley's music that, directly or indirectly, draws most of Graceland's visitors, and it fills the air at Graceland Plaza, a collection of shops, restaurants, and ticket offices across the street from the mansion. In one restaurant, The Diner, a Wurlitzer jukebox plays only Elvis records.

The music is what matters most to

tence to sentiments like Jack Soden's. Certainly that is true of Rhino Records, the Santa Monica, Calif., company that by general consensus leads the reissue labels in both sales (around \$20 million last year) and recording quality.

Says Harold Bronson, who with Richard Foos founded Rhino 11 years ago: "Sure, a lot of people buy these older records to remind themselves of what they were in high school, but good music is timeless. There's a lot in this older music that you can't get in contemporary music. It's more spontaneous, it tends to be wilder and more inventive, and the lyrics are much better."

Bronson goes so far as to suggest that for many people, nostalgia is not

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## COVER STORY

# A Business That Outgrew Nostalgia

Twenty-five years ago, news media all over the country began reporting a bizarre phenomenon. Grown men (and even a few grown women) had been seen buying and reading old comic books. "Shazam! Vintage Comics Prices Up, Up and Away," *The New York Times* declared. *Newsweek* reported breathlessly that the June 1938 issue of *Action Comics*, in which Superman first appeared, had become "a \$100 col-

lect's item among the country's band of first-edition comic-book fanatics."

How things have changed. For one thing, *Action Comics* No. 1 is now worth, in mint condition, around \$30,000. But the real surprises have come not from old comics, but from new ones. The comic-book industry has burst out of its Clark Kent disguise and taken on a new vitality, thanks especial-

ly to more adult-oriented versions of characters like Batman and Superman. "The slogan in comics today is 'Comics aren't just for kids any more,'" Steve Geppi says. "A great deal of effort has been put into coming out with more and more adult-oriented comics, so the comic retailer is less dependent on child readers. Comics sales still slow down in the fall as kids go back to school, he says, "but they don't slow down as much as they used to."

Ten or 15 years ago, comic-book stores might have carried 80 percent back issues and 20 percent new comics. Today, Geppi says, "it's the reverse." At Golden Age Collectables, a store in Seattle's Pike Place Market, the "Golden Age" comics from the '40s and '50s have been relegated to a glass display case in a corner. Old comics, Geppi says, are still "part of the expected decor. Even if you're not selling them, you want to retain a little flavor of nostalgia."

But only a little. Nostalgia now plays almost no role in the public's interest in comic books and comic-book characters. When the "Batman" movie was released last summer, few if any reviewers were stirred to thoughts of the comic books they read as children; any comparisons were to recent comic books by Frank Miller in which a grim Batman was portrayed as "the Dark Knight."

Steve Geppi's own career illustrates how thoroughly the industry has changed. He has left the basement far behind; now he owns five retail stores bearing the name Geppi's Comic World, with total sales of around \$2 million. But the stores are in fact a minor part of his operation. He is now principally a distributor of comic books and related materials, selling to 2,000 retailers in addition to his own stores; and this year his Baltimore-based company, Diamond Comic Distributors, will gross around \$55 million.

Geppi controls about 45 percent of the "direct-sales" market, in which distributors buy comics from publishers on a nonreturnable basis, for resale to comic-book stores. Traditional retailers like newsstands and drugstores can return any comic books they don't sell. The comic-book stores get bigger discounts by buying on a nonreturnable basis, and they stock any unsold copies as back issues.

These days, Geppi says, the direct-sales market is so profitable for publishers that they put their comic books on newsstands largely to keep them more in the public eye (and so enhance their licensing value). New comic books' prices have risen so much, though, that comics have become attractive again to traditional retailers; the lowest-priced comics now sell for around \$1 each, and many cost three or four times that. In October, a hardcover Batman comic book was published with a \$25 price tag.

Geppi thinks the market could support far more comics stores than now exist. He doesn't plan to open any more himself; he has in fact closed a few of his stores, to reassure his retail customers that he won't undercut them. But, he says, more and more people are entering the field—and not because they are collectors or hobbyists, but because they sense a business opportunity.

So far, no one has shaken up the field by starting a nationwide chain of comics stores, but Geppi suggests that such a move may not be far away: "As comic books get more and more exposure to the financial people of the world, and they see there are profits to be had, someone with venture capital will come in and hire the talent that they need."



PHOTO: T. MICHAEL KEZA

Steve Geppi started selling comic books out of a basement. Now he owns five stores like this one in Baltimore—and a \$55-million distribution company.

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Even as old comic books thrived on this new attention, new comic books of the traditional 10- or 15-cent variety seemed to be on the way out. They were harder and harder to find; many traditional outlets, like drugstores and dime stores, decided they weren't worth the bother.

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really at work when they buy older records: "If you think about America in the '50s and '60s, a lot of kids were growing up then who maybe heard rock 'n' roll a little bit, and maybe even liked it, but were living in households that were very repressive, and therefore they really couldn't celebrate the teenage energy and all this music until much later in life. I can't call that nostalgic; it's really a postponement of the whole experience."

In its early days, Rhino attracted attention by reissuing novelty records (one LP, "The World's Worst Records,"

times, alternate takes from long-ago studio sessions—that more often goes into reissues of jazz and classical recordings. "It's great music," Bronson says, "and it should be presented in the best possible form."

Such conviction that the music deserves respectful treatment underlies what is, on the surface, another company's more aggressively commercial approach to reissuing rock 'n' roll. About five years ago, Time-Life Entertainment, a mail-order operation based in Alexandria, Va., launched a series of albums called "The Rock 'n' Roll Era," bundling together 22 songs for each

other year-by-year Time-Life series but also imitative series by, among others, Rhino Records.

Time-Life has also issued "Rock 'n' Roll Era" albums devoted to one singer or group—Presley, the Beach Boys, the Supremes—and its market surveys indicated that such albums would sell the best. But an album of 1957 hits "has basically sold better than any of those," Stewart says. "People focus on those years—when they went to high school, when they went to college."

Nostalgia is, however, highly perishable. If you are in your early 40s, say, and for the first time in 15 or 20 years



PHOTO: T. MICHAEL KEZA

came with an air-sickness bag) and by repackaging rock in oddball ways (10 different versions of "Louie Louie" in one album), and Foos and Bronson sold themselves as the lighthearted Rhino Brothers. But today Foos, 40, and Bronson, 39, seem about as lighthearted as a couple of shirt-sleeved California bankers. For all the studied madcap touches in Rhino's offices—like a cloth rhino head with a record on its horn that decorates a stairwell—they are plainly dead serious about their work.

They got into reissues because, Foos says, "none of the records we liked were in print." Now their catalog bursts with dozens of records they like, reissues of songs by the likes of the Everly Brothers, Roy Orbison, Patsy Cline, the Neville Brothers, and Ricky Nelson, typically presented with the care—painstakingly remastered recordings, detailed liner notes, and, some-

**The summer of '89 drew many vintage rock 'n' roll acts onto the concert circuit. Here the Everly Brothers perform at Wolf Trap Farm Park in Virginia.**

year from the mid-'50s to the mid-'60s. "I did the years because it sort of reminded me of yearbooks," says Paul R. Stewart, Time-Life Entertainment's president.

Stewart's idea has been highly successful, with more than 1 million "starts," or initial orders, for the series. (People who order the first album in a series receive the remaining albums automatically unless they tell Time-Life not to send them.) "The Rock 'n' Roll Era" will grow to 40 albums before it's done—"the biggest, the best rock 'n' roll series of all time," Stewart boasts—and it has spawned not only

you hear a big hit record from 1962, you may be swamped with memories from your adolescence. But if you buy an album that includes that song, and you play it repeatedly, those powerful memories will soon be overlaid with your feelings about how the music sounds to you *now*. Stewart thinks that most people never reach that point: "I think what they do is listen to it a few times, and they put it away, and they keep collecting."

And yet, despite his skepticism about how long the records will be played, Stewart has produced a series that, for recording quality and high standards of production, is easily a match for Rhino's best. "I'm really proud of these things," Stewart says. "Everybody thinks they're the absolute finest recordings of their genre, and that's what I'm after." Like Foos and Bronson, he thinks the music deserves it.



Some people with a long view of popular music have their doubts. Will the music hold up over time? "I think not," says Martin Williams, author of *The Jazz Tradition* (Oxford University Press) and many other books on music. "Not like the music of the great songwriters of the first half of the century."

(Insisting on the durability of what we loved in our youth may be a way of rejecting our own mortality, of course. After all, if the beloved objects of our nostalgia are slipping into dusty irrelevance, the same thing may be happening to us.)

It's too early to say what will happen



PHOTO: T. MICHAEL KEZZ



PHOTO: G. GREG BROWN

to rock 'n' roll; for all the sales and acclaim that their efforts enjoy now, people like Graceland's Soden and Time-Life's Stewart will have to wait a few decades to learn if they have been merely riding a wave of nostalgia or if they have helped preserve a vital part of American culture.

For two other businessmen, both running enterprises that have close associations with rock 'n' roll, the verdict will come much more quickly. For them, relying heavily on nostalgia is not really an option. "Nostalgia brings people in," says Robert Giaimo, "but not over the long term. You want to look at what's good in that period and incorporate it into what's good in this period."

Giaimo is the founder and principal owner of Silver Diner Development, a company that opened a shimmering dream of a diner last February in Rockville, Md., near Washington. No other

**The Silver Diner's** principal owner, Robert Giaimo, top photo, tried to combine the appeal of traditional diners with a modern menu. His customers—2,000 of them a day—say he has succeeded.

kind of restaurant could evoke the '50s more vividly than a diner, and like the diners of the past, Giaimo's Silver Diner has Seeburg Wall-o-matic jukeboxes in each booth, filled with 20- and 30-year-old songs. But not, he hastens to say, for nostalgia's sake: "That's functional, to be able, at your table, to put in money and pick a song. That's an example of how we picked up something from the '40s because it worked."

Before opening his diner, Giaimo and his chef spent two years crisscrossing the country, eating at "about 500 diner-style restaurants" as he studied them and pinned down what he wanted. As a result, the Silver Diner—superficially so similar to classic diners—differs

from them in many critical details; for instance, the counter stools are movable, not fixed to the floor. The most important difference is in the menu.

"We make some items that were popular yesterday," Giaimo says—for instance, the Silver Diner offers meat loaf and a hot turkey sandwich—"but we don't prepare them the way they did yesterday. We use much leaner meat in our meat loaf, we use a much lighter gravy with some vegetables inside, we add herbs to our stuffing, we have rosemary on top of our meat loaf. Today, people want much more flavor." Among old diner-menu items excluded: creamed chipped beef on toast.

Giaimo wanted to open a restaurant



## COVER STORY

that would occupy the mostly empty middle ground between fast-food stores and relatively expensive specialty restaurants; and by making his restaurant a diner, he was able to tell potential customers what he was trying to do. "Its appearance on the outside immediately tells you what's going to be available on the inside," Giaino says.

The Silver Diner has spoken so clearly to passersby that revenues for its first 12 months—once projected to reach \$2.5 million—will probably hit \$4 million instead. The diner is serving 2,000 customers a day. Two more diners will open in the Washington area next

shift in the demand for fast food. At the start of the '80s, Lynn says, most fast food was eaten on the premises, but now most of it is taken out. The big hamburger chains have responded to that demand by adding drive-by windows, but the lines at those windows can be long.

Sonic, by contrast, averages 24 order stations at each of its drive-ins, Lynn says, "and we can get a cooked-to-order product out in under four minutes." In other words, although drive-ins weren't designed with take-out in mind, they serve that purpose well.

As Sonic began competing more ag-

gia continuum from the intense emotion that motivates the people who buy old jukeboxes. In Sonic's hands, nostalgia has become no more than a pleasing garnish on what is otherwise an entirely contemporary business.

**P**leasing, that is, if you approve of invoking nostalgia at all. Not everyone does. Usually, when people speak of nostalgia, they do so fondly, but the word actually has negative overtones. Here is Webster's definition: "the state of being homesick; a wistful or excessively sentimental, sometimes abnormal yearning for return to . . . some past period."

For some people, the dictionary is, if anything, too soft on nostalgia. Columnist George F. Will has dismissed nostalgia as "narcissism . . . modern man's worship of himself through veneration of things associated with his development."

One of the harshest judgments on nostalgia comes from, of all people, a well-known rock musician of the '60s, Frank Zappa, founder of the Mothers of Invention and creator of such nostalgia-defying albums as "Weasels Ripped My Flesh." In *The Real Frank Zappa Book* (Poseidon Press), using italics and boldface to emphasize his points, Zappa writes:

*"It isn't necessary to imagine the world ending in fire or ice—there are two other possibilities: one is paperwork, and the other is nostalgia. When you compute the length of time between The Event and The Nostalgia For the Event, the span seems to be about a year less in each cycle. Eventually within the next quarter of a century, the nostalgia cycles will be so close together that people will not be able to take a step without being nostalgic for the one they just took. At that point, everything stops. Death by Nostalgia."*

Zappa is surely too harsh. For most people, nostalgia is not so much a paralyzing flight into the past as a way to bring the past alive in the present—that is, it helps make their lives seem whole. Millions of Americans find themselves refreshed and comforted when they call up some cherished memory—by playing a new compact-disc version of a well-loved record, by visiting a place like Graceland, by eating in a diner that blends the best of the past and the present, or by reading something like . . . like . . . well, like that great article on nostalgia in the December 1989 *Nation's Business*. Hey, wasn't that terrific? Man, they aren't writin' 'em like that anymore. **■**



Hamburger drive-ins flourished in the '50s, and Stephen Lynn of Oklahoma City-based Sonic Industries is using nostalgic appeal to boost his chain today.

year, and Giaino expects to be franchising soon after that.

If any kind of eating place speaks as strongly of a period as a diner does, it may be the drive-in hamburger restaurant with carhop service. Drive-ins flourished in the '50s and '60s but have since been eclipsed by the fast-food chains.

Or so it seemed.

Sonic Industries is an Oklahoma City company that franchises what C. Stephen Lynn, its president and chief executive officer, unabashedly calls "'50s-style drive-ins," mostly in smaller towns in the South and West. (When Sonic started franchising in the '50s, it boasted of "service with the speed of sound.") By the early '80s, when Lynn took charge, Sonic had around 900 drive-ins and systemwide sales of \$260 million, but, he says, it also had "a concept that was a little tired, a little out-of-focus."

Sonic found an opening in a sharp

gressively, it used the '50s as one of its marketing tools—but only one. Sonic chose not to use a '50s motif when it updated its buildings; "we felt that would irrevocably date us," Lynn says. Instead, Sonic has one '50s promotion every year (extolling the "Nifty Fifties," for example), and it hints at the '50s constantly by using the veteran rock-'n'-roller Frankie Avalon as its spokesman, often in a tongue-in-cheek manner (in one commercial, a girl asks Avalon for his autograph—for her mother). "We use the '50s to get them in," Lynn says, "and then we show them how we can meet their No. 1 demand"—for fast takeout service—"better than our competition."

The appeal is working, Lynn says: The chain has grown to around 1,000 stores, and same-store sales have grown by a double-digit percentage each of the past three years.

Sonic's half-mocking commercials stand at the opposite end of the nostal-



To order reprints of this article, see Page 65.



# Looking Beyond Section 89

By Roger Thompson



PHOTO: TERRY ASHE

**Rep. Dan Rostenkowski, D-Ill., couldn't save Section 89, but he vowed that "we'll be back to fight another day" to eliminate perceived discrimination in employee benefits.**

**R**ep. Dan Rostenkowski knew he couldn't stop the legislative steamroller poised to flatten Section 89. He conceded defeat even before the long-awaited House vote to repeal the controversial benefits law. The lopsided margin of 390 to 36 left no doubt that Section 89—a tax-law provision designed to prevent discrimination against lower-income workers in health-care plans—had become a tax-reform orphan. No one in Congress claimed authorship, and few defended it.

Just minutes before the vote, Rostenkowski, an Illinois Democrat and chairman of the tax-writing House Ways and Means Committee, warned his colleagues that "repeal of this basic health-care protection for rank-and-file workers is an enormous mistake." He concluded with a pledge that left some wondering whether victory would be only temporary. Said Rostenkowski: "We'll be back to fight another day."

That's just what worries Stuart Brahs, Washington-based vice president for federal-government relations with the Principal Financial Group, a major health-insurance provider for small companies, headquartered in Des

Moines, Iowa. "The small-business community is taking credit for wiping Section 89 off the books, but it will rue the day that was done," Brahs warns. "Congress will come back and tax benefits and/or mandate benefits, and that is the last thing that anyone wants."

"I think a major tactical error was made. We would have been better served by trying to make the compromise rules workable, rather than trashing them."

But that's definitely not the message that small-business owners were sending to Capitol Hill during the heat of the debate, says Lisa Sprague, manager of employee-benefits issues for the U.S. Chamber of Commerce. "We were getting a message loud and clear that compromises were not something they [small businesses] could live with," she says. "They wanted outright repeal. Now we may have to face the threat of a benefits tax, but that's no justification for keeping a bad law on the books."

"Section 89 or no Section 89, I think that Rosty will try to come back and cram a benefits tax down businesses' throats. It's a matter of revenue."

James Klein, deputy executive direc-

*Section 89 is gone but not forgotten; Congress may try to tax "excess" employee benefits or even mandate certain benefits.*

tor of the Washington-based Association of Private Pension and Welfare Plans, says, "Rosty always made it clear that these [Section 89] nondiscrimination rules were in place because Congress didn't want to tax benefits. But with no nondiscrimination rules on the books, he will come after taxation of employee benefits."

Taxing benefits "may simply be a bad idea whose time has come," says Henry Saveth, a health-care consultant with A. Foster Higgins & Co. in New York.

Even Rep. John J. LaFalce, D-N.Y., legislative architect of the repeal drive, has said that he favors taxing excess benefits, but he's not sure how to define excess. "That's something we should work on with the business and labor community," he says.

Some experts have suggested that any expenditures on benefits beyond 133 percent of the norm is excess. Others refer to the first Treasury Department tax-reform proposal, in November 1984. For employer-provided health insurance, it proposed taxing any amount over \$70 a month for coverage of an individual, or \$175 a month for a family. Those amounts would be indexed to the consumer price index.

"That idea got booed out of the stadium back in 1984," says Garry Jerome, a consultant with Mercer Meidinger Hanson Inc. in Philadelphia. Tax-reform managers came up with Section 89 as a substitute for taxing benefits. But after the fiasco with that provision's complex nondiscrimination rules, Jerome says, the simplicity of a cap on tax-free benefits may now have more appeal.

Yet that doesn't mean business—or labor—will like the idea. Five years ago, "the last time there was a threat to tax benefits," says Sprague, "business and labor joined arm in arm to defeat the idea, and that's a hard combination to ignore politically."

Whatever Congress does next session will certainly be tempered by its experience with Section 89. The repeal effort started slowly last January and in the end humbled one of the most powerful men in Congress.

Rostenkowski stood helplessly on the House floor on Sept. 27 and pleaded with his colleagues not to sweep aside all nondiscrimination rules for health



## LEGISLATION

plans. For months, he had maneuvered to contain the debate over Section 89 to the committee over which he presides.

But even as Rostenkowski showed increasing willingness to simplify the law's maddeningly complex nondiscrimination rules, there was an unprecedented storm of protest from small employers refusing to settle for anything less than repeal.

Using parliamentary muscle, Rostenkowski fought to keep his third and final compromise version of Section 89 embedded in a massive deficit-reduction bill, thereby shielding the compromise from a separate vote. But with 320 House members on record favoring repeal, the House Rules Committee in late September rebuffed him and cut Section 89 loose to stand or fall on its own merits.

The House then voted simply to erase Section 89 from the books and restore the laws that applied before the Tax Reform Act of 1986. (See box.) The Senate followed suit.

Said Rep. LaFalce, chairman of the House Small Business Committee: "This was a victory for all employers against an egregiously unfair law."

It was a victory that few had thought

## The Benefit Rules That Now Govern

With repeal of Section 89, employer health and other benefit plans will now be subject to all nondiscrimination laws in place before the 1986 tax-reform act.

For employers who purchase their health plans from insurance companies, no nondiscrimination rules apply. (One exception affects a few health plans held by Voluntary Employees' Beneficiary Associations, or VEBAs.)

In contrast, self-insured companies must comply with Section 105(h), a little-known tax law that in effect posed no compliance problems because it was so vague. Health plans passed if they offered benefits to "a reasonable classification of employees." Some experts say the Internal Revenue Service now may try to put more teeth into Section 105(h), making it hard for some self-insured firms to comply.

Health benefits offered through cafeteria plans will again be subject to special nondiscrimination testing under Section 125 of the tax code.

could be won. "If you go back to where this all started last January, everyone said that repeal wouldn't go anywhere," says Frederick J. Krebs, manager of business and government policy for the U.S. Chamber of Commerce. "At each step of the way, as compromises developed, people said it won't get any better. But conventional wisdom proved to be wrong."

**O**n Sept. 12, Rostenkowski surprised everyone by agreeing to repeal. At the same time, however, he introduced a set of greatly simplified nondiscrimination rules.

During the Sept. 27 floor debate on repeal, Rostenkowski defended his last proposal as one that "would simply prohibit 'executive-only' health plans created by owners and highly paid managers who give themselves Cadillac health coverage and give absolutely nothing to their rank-and-file employees. In addition, the bill would prohibit discriminatory health plans maintained by professional service organizations; that is, doctors, lawyers, and other highly paid professionals."

But his final offer was too little, too late. **■**



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As part of a continuous effort for diversification, Petróleos de Venezuela, S.A. (PDVSA) has launched an expansion plan for its petrochemical facilities in Venezuela. The plan, developed by Pequiven, PDVSA's affiliate in charge of the petrochemical industry holdings, calls for a four billion dollar investment within the next five years. The projects not only seek to maximize the utilization of present production capacity, but also to expand existing capacity to meet the needs of both the Venezuelan and international markets.

New plants for products not yet manufactured in Venezuela are already under construction, making increased use of Venezuela's gigantic reserves of natural gas. It is estimated that, after completion of the expansion program, current production capacity of 3.1 million metric tons per year will reach 9.1 million tons by 1994.

The accelerated growth planned in the petrochemical sector will come from joint ventures with foreign and national capital. Pequiven has a long-standing experience developing new investment opportunities and can count among its partners major companies in the field, from the United States, Japan, France, the Netherlands and Spain, sometimes operating together with Venezuelan private capital. Thus far, eleven joint ventures have been operating successfully. Five new ones have been established which are now in different phases of engineering and construction and four more joint ventures are expected to be created during the course of this year.

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# Food For Thought

By Michael Barrier

**J**ulia Child says she has written her last cookbook. That's not because she has worn out her welcome. Her seventh book, *The Way To Cook* (Knopf), published in October, is headed toward sales of 300,000 copies or more—an extraordinary figure for a lavishly produced book bearing a list price of \$50. The book's sales surprise even its author: "It seems amazing to me that a \$50 book will trot out of the bookstores that way."

Neither is Child daunted by the physical demands that a cookbook places on a conscientious author, who must, after all, test every recipe thoroughly. She turned 77 last Aug. 15, and she fractured a hip last year in a fall at her second home, in Santa Barbara, Calif. (She tripped over a computer cord: "I was plunging around, and I caught my foot in it and lost my balance.") But from all appearances, in a conversation at her publisher's office in New York, she is little changed from the vigorous woman who, a quarter of a century ago, wrestled sullen cuts of meat and unruly poultry into submission on public television's first successful cooking show, "The French Chef."

The big problem she has with writing cookbooks, she says, is that "it's so confining. I haven't been able to do one other thing."

Child does have other things on her mind. Through her books and television shows, she has encouraged countless Americans to make profound changes in the ways they cook, eat, and think about food, but she knows that influence of that kind is inevitably limited. No writer of cookbooks can hope for the kind of immortality that other authors covet; the greatest names of the past, like Carême and Escoffier, are more read about than read.

Will her own books be read a century from now? "Oh, no, I don't think so; things change so much. We don't know what new ovens will be like. Maybe the microwave will turn out to be better." Already, the earliest of her books, the two volumes of *Mastering the Art of French Cooking*, published in 1961 and 1970, have been revised to take into account the food processor.

While her books and TV shows have been highly successful, she hopes to leave a lasting mark with a new ven-

ture that is drawing increasing support from business—the American Institute of Wine and Food. Along with wine producer Robert Mondavi and a handful of other people, she founded the AIWF eight years ago to, in the words of one of the institute's publications, "advance the understanding, appreciation, and quality of wine and food."

The institute, based in San Francisco, has drawn the support of a small but

*Julia Child is encouraging business to help reshape Americans' attitudes toward what they eat and drink.*

impressively diversified list of companies—including food producers, wineries, retailers—and trade groups. Among them are the American Dairy Association, the Seagram Classics Wine Co., the Carnation Co., and the Quaker Oats Co. It will win more industry support, Child thinks, as membership grows: "We haven't gotten all the people in the industry who should be part of it. I think they're generally interest-

PHOTO: JIM SCHNER





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## LESSONS OF LEADERSHIP

ed, but with only 5,000 members, we really haven't had the impact that we want. We need a much stronger organization; we should have 20,000 or 30,000 members by now."

**E**arly in November, the AIWF held its seventh annual international conference on gastronomy, or good eating, in Chicago, with speakers and panelists devoting themselves to such imposing topics as Midwestern ethnic food traditions and the industrialization of American food production. But in between the speeches and the panels there was food. The conference meals were prepared by chefs from such renowned restaurants as Le Bernardin in New York and Chez Panisse in Berkeley, Calif.

Like its co-founder, the AIWF mixes a sober scrutiny of food with unabashed delight in what Julia Child often calls "the pleasures of the table." Some of AIWF's business supporters find this combination refreshing. Says Tom McDermott, a vice president of the National Live Stock & Meat Board: "When we sit down to a meal with others, it's psychological, it's social, we do it for nutrition, for pleasure—all sorts of things come into play. The institute, more than any other organization I can think of, recognizes that."

Many Americans have always had trouble with the idea that food can be enjoyed even if you take it seriously. Enjoying food has seemed a pastime for the gluttonous and the frivolous—fast-food fatties and yuppie restaurant-hoppers—whereas taking food seriously has meant swallowing it like medicine. Many people have compromised by eating what is put in front of them but not paying much attention to it.

Child, by contrast, speaks of enjoying food and taking it seriously as if they were not simply compatible but indistinguishable: "I'm disturbed at this terrible fear of food that's going on in this country. You should enjoy every mouthful. People are nutty; they should take themselves and their food seriously."

Her books and TV shows have, like the AIWF, embodied that attitude. She peeled away the mystery from French cooking techniques, making them accessible for the first time to millions of people, and she plunged into food preparation with infectious gusto. "It's fun," she says of food, and her consistent message has been that the more carefully you prepare meals and the greater your awareness of what you are eating, the more fun food becomes.

Child came late to her distinctive convictions about food. When she was growing up as Julia McWilliams, in Pasadena, Calif., "food was not really



PHOTO: BRIAN LUKARTY

**France awakened** Child's interest in cooking when she lived there 40 years ago, and she has returned often. Here she shops in the city of Grasse.

discussed. My mother came from New England, my father from Illinois, and we had all of this very good, simple, sensible American food. We didn't drink wine; one didn't, in the '20s. I really didn't get into cooking at all."

She did have an occasional brush with an exotic cuisine. Her family owned a rice farm at DeWitt, Ark., and she remembers eating squirrel on a visit there ("It was delicious"). But otherwise she bumped along in a culinary rut, all the way through Smith College, then in a job writing promotional copy for a New York furniture company, and finally during a wartime stint with the Office of Strategic Services (OSS) in Washington, D.C., where she cooked on a hot plate atop her refrigerator.

She wound up in Ceylon, filing papers for the OSS, and there she met Paul Child, an official in the agency, 10 years her senior, and, while no cook himself, a connoisseur of fine cooking. "I didn't really get interested in food until I met Paul," she says.

Paul and Julia worked together with the OSS in China, too—"we got terribly much interested in Chinese food"—and in 1945 they married, both for the first time, after returning to the U.S.

Before she married, Julia briefly attended a cooking school in Los Angeles, and "I learned how to make baking-powder biscuits and pancakes. Paul said he married me in spite of my terrible cooking. When we got married, I did a lot of cooking, using *The Joy of Cooking* and *Gourmet*. It was fun, but I didn't know much; and I realized, when I got to France, I didn't know anything."

**P**aul Child's work as a member of the Foreign Service took him to the U.S. Embassy in Paris. Julia had been casting about for a career since her days as a publicity writer—"I wanted to get into *The New Yorker*, as everyone did in those days"—but not until she tasted what French cooks made did she know what that career would be. She was impressed by "the seriousness with which they took their craft, and that it didn't make any difference how long it took, as long as it was beautifully done. That really appealed to me very much. I just fell into that; it was what I had been looking for all my life."

She studied at the famous Cordon Bleu in Paris, and then she and two French friends started their own cooking school. The three collaborated on the book that eventually turned out to be the first volume of *Mastering the Art of French Cooking*. The publisher that had originally contracted for the book turned it down—twice—and Knopf finally picked it up, somewhat grudgingly.

Around the time the book was published, Paul retired from the Foreign Service, and the Childs settled in Cambridge, Mass. Julia appeared on the local public-TV station, WGBH, to plug her book, and that led in the summer of 1962 to three experimental half-hour cooking shows. On the first show, Julia has written, "there was this woman tossing French omelettes, splashing eggs about the place, brandishing big knives, panting heavily as she careened about the stove."

Those trial episodes led in early 1963



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## LESSONS OF LEADERSHIP

to a series that eventually ran for more than 200 episodes. Audiences—first in Boston and then around the country—found her unpretentious manner winning. Her shows had a spontaneous air, because for the most part Julia "let the gaffes lie where they fell." She chose, as she later wrote, to "have things happen as they naturally do, such as mousse refusing to leave the mold, the potatoes sticking to the skillet, the apple charlotte slowly collapsing. One of the secrets of cooking is to learn to correct something if you can, and bear with it if you cannot."

"The French Chef" was followed by three series of hour-long shows, six how-to videotapes, more cookbooks, and the kind of nationwide celebrity that no other cookbook author has ever enjoyed. Propelled by her TV exposure, sales of her first six cookbooks soared; Knopf will say only that sales have been in "the millions of copies."

Her books and television shows have rewarded her handsomely—at anything like normal royalty rates, she will earn \$1 million or so from her new book alone—but Child has shied away from opportunities to earn many more dollars.

"I have to pay quite a bit for my clothes, because I'm outsized," she says—she tops 6 feet—"and as long as I can get clothes, and have a decent car, I'm not really interested in the money end of it."

She has rejected a great many proposals that she lend her name to this or that product. She doesn't take such endorsements seriously—"I think you must realize that all you're being is window dressing"—but beyond that, "if you endorse it, then you're wedded to it. Suppose they change the product? Your name is still attached to it. Once your name is on something, that means you stand by it. I think it's too risky."

Although she still makes occasional appearances on ABC's "Good Morning America," she never seriously considered moving her cooking shows to the more lucrative world of commercial TV, because "I always felt that we might be bossed around. I like public television, because I can do what I want. I hate to admit it, but I'd be perfectly happy to do it for nothing. It's a great deal of fun."

At one point she did give her television work a more formal business shape—she set up Julia Child Productions when she was making her later TV shows and the videotapes—but that company is dormant now that her TV work has slacked off. Mostly, she says, she makes do with the help of an accountant and a part-time secretary.

As for other avenues, a restaurant with Julia Child's name on it could not help but be wildly popular, but she never considered going into that business: "I know too much about it. It's a total life. Unless you had your husband or your wife in it, it would be very difficult. The hours are just so different."

For all the success she has achieved in a business sense, Child sees herself

as an educator, more than anything else; she dubbed her fourth book, *From Julia Child's Kitchen*, "a private cooking school." She has made some concessions to fashion in *The Way To Cook*, her new book, by scaling back the butter and cream in some recipes, but she remains steadfast in her devotion to French cooking, which is, after all, a pedagogue's delight—

as she says, "it's the cuisine with all the rules. What you need are the basic techniques, and then you can interpret them as you wish."

(Among all the rest of the world's cuisines, she has found only one other, she says, that really appeals to her: "I'm very, very fond of northern, Peking-style Chinese cooking. That's my second favorite. It's more related to the French; it's more structured.")

It is education, through the American Institute of Wine and Food and other avenues, that absorbs her attention now. Already, she says, the food profession in the U.S. is attracting "very well educated people," and she hopes that food preparation—traditionally a subject for trade schools—will find its way into university curricula. "What I'm very much interested in is eventually being able to have some universities that will have a degree in the fine-arts slant of gastronomy," just like a degree in theater, architecture, or dance.

Gastronomy, she says without a trace of doubt, "is really more important than any of them." **NB**

*She has rejected many proposals to lend her name to products. "If you endorse it, then you're wedded to it. Suppose they change the product? Your name is still attached to it."*





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# Small-Business Computing

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uniqueness is in the way it rapidly sorts through this mass of material, guided only by scant information provided by the user. It is outwardly simple but inwardly complex, with 25 megabytes of disk storage space compressed into seven.

Based on your answers to a series of logical questions, the program will mimic human thought to search for all the words and phrases, including even polar opposites and unorthodox categories, such as song titles and product names, that will help trigger images and associations in your own mind. Further questioning will sharpen your thinking and take you deeper into the seemingly endless database until—assuming the program works for you—a word or phrase will flash across the screen that lifts you off your seat.

IdeaFisher is the brainchild of a team of computer scientists and other specialists brought together by Marshall Fisher, a founder of the Century 21 franchise real-estate firm. IdeaFisher sells for \$495 until April 1, when the price will be raised to \$595. For information, write Fisher Idea Systems, 2302 Martin St., Suite 350, Irvine, Calif. 92715.

—Donald C. Bacon

## PLANNING

### Get Your Business Plan Off The Shelf

Entrepreneurs are famous for neglecting business plans. If they do one, it is often just to get the loan or the capital, and the plan goes on the shelf, to be more honored in the breach than the observance.

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*Venture—The Entrepreneur's Handbook* bills itself as "the first comprehensive software system developed just for the emerging business." The program pulls together a number of standard business tools and adds a plan builder.

It works on IBM-compatible systems and uses the Tandy Desk Mate interface, a system of on-screen "buttons" you can "push" with a mouse or keys. The plan builder—based on the University of Southern California's Entrepreneurship Program—asks you a series of questions, either to test the feasibility of a business plan or to write the plan. As you answer the questions, the material arranges itself for a final document that can be printed out and presented to a potential investor or lender. If you do the feasibility plan and the results encourage you to go forward with your new venture, then the same material will transfer to the extended business plan that you create.

You can put figures in the spreadsheet part of the program and import them into your plan, dress the whole thing up with the word processor, and print out a professional-looking document. For the most part, *Venture* is not difficult to use, although the general ledger program is cumbersome in the Desk Mate format.

It may be that the best thing *Venture* will do for you is make you realize how unprepared you are to start a new venture; if the \$450 cost of the program saves you thousands of dollars in wasted investment and time, it would be well worth the price.

For information, contact Star Software Systems, 367 Van Ness Way, Torrance, Calif. 90501-1420; (213) 533-1190.

—Ripley Hotch



## WORD PROCESSING

## Help In Writing It Right

If you are among those business people who would rather work with a spreadsheet than spell it, the *Instant Business Letters System* (\$59) might spare you a great deal of anxiety.

Books of model business letters are familiar security blankets for those circumstances. LightningWord Corp. has transformed one anthology, the *Complete Book of Model Business Letters*, by Martha W. Cresci, into memory-resident software that is compatible with most word-processing programs.

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Within each category are about 20 letters. The model letter selected can be edited and customized. For mass mailings, the file also can be merged with a standing list of names and addresses.

Separately, when the entrepreneurial LightningWord company discovered that, like many small businesses, it was using a patchwork of employment-related forms, the firm upgraded its personnel paperwork, which will be available for sale soon on floppy disk. The *Human-Resources System* will include attorney-approved forms for everything from tendering job offers to conducting annual reviews.

For information about either product, contact LightningWord Corp., 1601 Civic Center Drive, Suite 206, Santa Clara, Calif. 95050; (408) 241-1990.

—Albert G. Holzinger

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The machines are about the size of a VCR tape, and weigh about a pound. Both include some basic PC programs like a calendar, calculator, and address book.

Small cards can increase memory and available programs. Both run on AA batteries (Poqet uses two, Atari uses three).

Major differences: The Atari has only one-third the memory, but then at \$399 list it only costs a fifth as much as the Poqet (\$1,995).

—Ripley Hotch

## ANSWERS

## Checking Out Computers

How can you compare IBM AS-400 series, or System 36, with comparable Wang, DEC, or Unisys hardware? Can you supply sources in order to study these systems?

H.R., Miami

The machines do have different capabilities, but much depends on the work you want them to do.

Begin by researching the software you will need for the type of work you do. Ask colleagues in your industry what they use for the applications you plan to make. Once you've determined your best software, then you can find out what type of hardware is best. Mel Mandel, technical consultant for *High Technology Business* magazine, says you may not even need the middle-range hardware that you have named. You may simply need a powerful personal computer.

## It's Still Buyer Beware

Is there any way to recoup our invest-

ment in the purchase price of a software package plagued with bugs? We had one package from a major retailer that cost \$4,200 and did not work. A second package that cost years of time and more than \$75,000 in consultants never worked. On top of that, we were told we were a Beta test site, which we had not known or agreed to.

B.V.G., Washington

Unfortunately, software has never had the same kind of guarantees that manufactured products do. Software companies usually offer telephone technical advice, to talk you through problems, but they won't (and can't) replace time or sales lost.

For one thing, it's hard to say exactly where the blame lies for errors. A few years ago a New England contractor made an error in his Lotus 1-2-3 spreadsheet that meant he underbid a project by several hundred thousand dollars—and lost that money. A lawsuit resulted, and the judge in the case ruled that Lotus could not be held responsible for errors by the user.

In general, reputable software com-

panies will do their best to help you, but they regularly put disclaimers on their packages that pretty much restrict their liability to replacing defective disks.

When you are going to spend a lot of money on any computer equipment or software, you should take the same care you do with any other purchase: Specify what you want the package to do, and get a signed agreement with your vendors about what they will do if the package does not operate as you both agree it should.

A contract offers your best protection.

## HAVE A QUESTION?

## We'll Try To Help

If you are stumped by a small-business computing question, we might be able to help. In this column, we will answer questions that we think will apply to a number of other business people. Send your questions to "Small-Business Computing," *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. **BB**



## WORKPLACE

# How To Comply With The Polygraph Law

**T**he use of polygraphs—or so-called lie detectors—in the workplace was the subject of a long dispute in Congress, where questions were raised about the devices' effectiveness.

It was argued on one side that a polygraph operated by a trained individual can be a valuable tool for an employer in screening job applicants and investigating workplace crime.

In such examinations, the polygraph measures physiological pulsations, such as the heart rate, while a subject is responding to questions. Large fluctuations in the various measures are considered by some as signs of untruthfulness.

Opponents of the use of the polygraph maintained that stress detected by the equipment is not necessarily proof of untruthfulness, but instead could be the result of physical or psychological discomfort.

In the end, the opposition prevailed, and Congress passed the Employee Polygraph Protection Act of 1988. It prohibits the use of polygraphs to screen job applicants or investigate employees, but the law makes certain exceptions.

Employers should be aware of the provisions of the law, including the circumstances in which use of the equipment is allowed.

Following are the basic elements of the polygraph act:

## Employers' Rights Under The Law

The Employee Polygraph Protection Act prohibits the use of polygraphs for pre-employment screening by most private-sector employers. (Exempted are security-service firms and pharmaceutical manufacturers, distributors, and dispensers.)

The act permits limited testing of employees as part of workplace investigations, but only under strict regulations.

No employer can legally screen employees randomly or periodically.

The act specifically outlaws employers' use of polygraphs, deceptographs, voice-stress analyzers, psychological-stress evaluators, and other devices used to judge a person's honesty.

## Proper Testing Procedures

In the course of a workplace investiga-

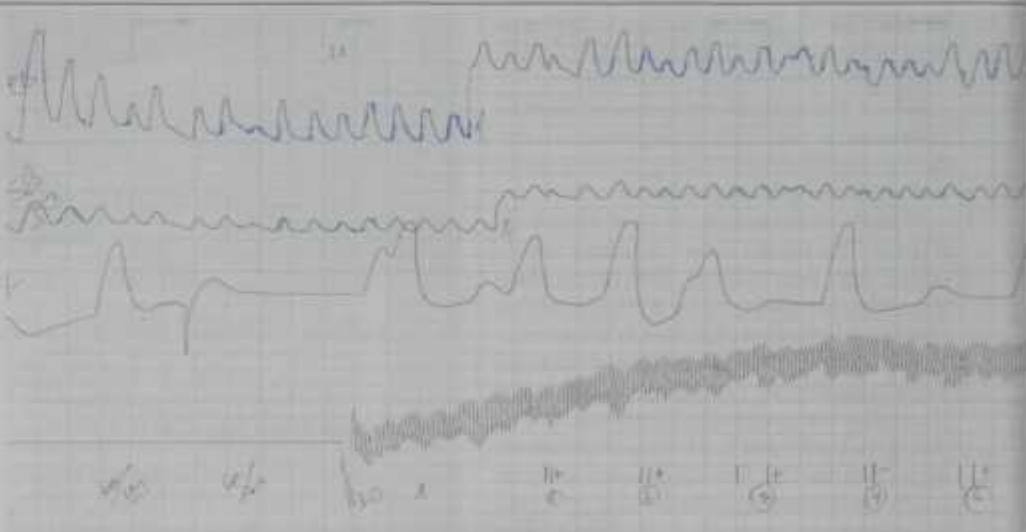


PHOTO: ILLINOIS JAZZ-FOCUS

**A polygraph test like the one shown at top is reviewed by an examiner, who must meet certain licensing and professional requirements.**

tion, an employer cannot suggest to employees the possible use of a polygraph instrument until satisfying these 10 conditions:

**1. Economic loss or injury:** The employer must administer the test as part of an investigation of a specific incident involving economic loss or injury to the business, such as theft or sabotage.

**2. Access:** The employee who is to be tested must have had access to the

property that is the subject of the investigation.

**3. Reasonable suspicion:** The employer must have a reasonable suspicion of the worker's involvement in the incident under investigation.

**4. Before the test:** An employer's failure to adhere to guidelines can void a test and subject the employer to fines and liability.

The employee who is to be tested



## These guidelines can help employers meet the new federal restrictions on the use of polygraphs in the workplace.



must be notified in writing at least 48 hours—not counting weekends and holidays—prior to the test:

- where and when the examination will take place;
- the specific matter under investigation;
- the basis for concluding that the employee had access to the property being investigated;
- the reason the employer suspects the employee of involvement;
- the employee's right to consult with legal counsel or an employee representative before each phase of the test.

Also before the test, the employee must be provided:

- oral and written notice explaining the nature of the polygraph, its physical operation, and the test procedure;
- copies of all questions that will be asked during the test;
- oral and written notice, in language understood by the employee and bearing the employee's signature, advising the worker of his or her rights under the act.

### 5. Procedural requirements for polygraph examinations:

- The test must last at least 90 minutes unless the examinee terminates the test.
- Either party, employer or employee, can record the test with the other's knowledge.
- Questions cannot pertain to religious, political, or racial matters; sexual behavior; or beliefs, affiliations, or

lawful activities related to unions or labor organizations; and questions cannot be asked in a degrading or needlessly intrusive manner.

- A worker can be excused from a test with a physician's written advisement that the subject suffers from a medical or psychological condition or is undergoing treatment that might cause abnormal responses during the examination.

• An employee has the right to consult with counsel before, during, and after the examination, but not to have counsel present during the actual examination.

- An employee must be advised that his or her confessions may be grounds for firing or demotion, and that the employer may share admissions of criminal conduct with law-enforcement officials.

• A worker can terminate or refuse to take a test and cannot be demoted or fired for doing so. But the employer can demote or fire the worker if he or she has enough separate supporting evidence to justify taking that action.

6. **After the test:** Before an employer can take action against a worker based on the test results, the employee has a right to a written copy of the tester's opinion, copies of the questions and corresponding replies, and an opportunity to discuss the results with the employer.

An employee may be disciplined, fired, or demoted on the basis of the test results if the employer has sup-

porting evidence, which can include the evidence gathered to support the decision to administer the test, to justify such action.

Test results cannot be released to the public, only to the employee or his or her designate; the employer; a court, government agency, arbitrator, or mediator (by court order); or appropriate government agency if disclosure is admission of criminal conduct (without court order).

The examiner may show test results, without identifying information, to other examiners in order to obtain second opinions.

7. **Qualifications of examiners:** An employer can be held liable for an examiner's failure to meet requirements, which cover licensing, bonding or professional liability coverage, testing guidelines, and the formation of opinions.

8. **Waiving employee rights:** A worker cannot be tested—even at his or her insistence—if the employer cannot meet procedural requirements and prove reasonable suspicion and access. Employees may not waive their rights under the act except in connection with written settlement of a lawsuit or pending legal action.

9. **State law/collective bargaining agreements:** The act does not pre-empt any state or local law or collective bargaining agreement that is more restrictive than the act.

10. **Record-keeping requirements:** Records of polygraph exams should be kept for at least three years by the employer and the examiner, who must make them available—within 72 hours upon request—to the Department of Labor. ■

*This article was adapted from The Employee Polygraph Protection Act: A Guide to Compliance, published by the U.S. Chamber of Commerce. Copies of the 40-page publication are available. The price is \$10 for Chamber members and \$15 for nonmembers. Ask for publication No. 0142.*

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# Keeping Up With EC92

By Albert G. Holzinger

**H**ow are the 12 members of the European Community progressing in establishing the legal framework for their consolidation into a single economic bloc in 1992? How can U.S. small businesses keep current on the planning for the creation of an economic superpower that will be the equal of the U.S. or Japan?

American business people are seeking the answers to those and many other questions about EC92 because of their awareness that a unified Europe will present tremendous new opportunities to U.S. enterprises prepared to move quickly and astutely.

The best way to build an information base on how to take advantage of those opportunities is to start with some basic homework.

A good way to begin is by rereading "EC92," the cover story in the June issue of *Nation's Business*. (Reprints are available. See the "Recent Best Sellers" category on Page 65.) Another way is to study *Europe 1992: A Practical Guide for American Business*, written by International Division staff members of the U.S. Chamber of Commerce. (Call 202/463-5469 for ordering information.)

With a solid background, you will be better equipped to deal with the ongoing developments of the EC92 planning process. That process has already raised questions. Here, to add to your knowledge, are the answers to some of the questions that are asked most frequently.

**Q.** What is the status of the 279 pieces of legislation that the European Community must adopt under its single internal market program?

**A.** The European Commission has drafted about 230 of those directives and regulations, and the Council of Ministers and Parliament have enacted 130 of them, according to the Single Internal Market Information Service of the U.S. Department of Commerce.

But don't conclude from those figures that the EC has cleared about half the legislative barriers to achieving a single market.

All but 13 of the measures enacted thus far are EC directives, which outline results to be achieved but do not take effect until all member nations en-

act implementing legislation. (In contrast, EC regulations are effective immediately and supersede national laws when conflicts exist.) According to the European Commission, only seven directives have been implemented so far by all 12 member nations.

**Q.** Is all of this legislation likely to be finalized by the end of 1992, when the program is scheduled to take effect?

**A.** It is unlikely that the single-market program will be in place fully by Jan. 1, 1993. The European Commission is not close to proposing some politically sensitive directives, including one addressing border supervision of movements of people and goods. And legislatures of member nations are not racing to enact implementing legislation, some of which will advance the economic interests of the EC as a whole at the expense of each member nation's welfare.

EC leaders also could have many years' work before them in several policy areas technically outside the single-market program but closely related to it. These areas include policies concerning labor rights in the single European market, and Community-wide coordination of monetary and fiscal policies.

But on-time completion of the single-market program is unimportant.

What's of consequence to U.S.-business planning is this: The Europeans have clearly demonstrated resolve to complete the EC92 process, even if it takes them until the end of the century or beyond.

**Q.** Is the U.S. government doing much to keep small to mid-sized American firms informed about key EC92 developments?

**A.** Says William T. Archey, the U.S. Chamber's vice president for international policy: "At this stage of the process, companies need lots of technical details to have an informed opinion [about how EC92 is likely to affect them]. Federal agencies such as the Commerce Department are making enormous efforts" to study EC directives and regulations and make "very good" detailed analyses available to small U.S. businesses.

Frank Vargo, deputy assistant secretary of commerce, says more than 80,000 copies of individual directives have been mailed to approximately 8,000 businesses—most of them small firms—in response to their requests for





*Europe's planning process for economic unification in 1992 has raised many questions. Here are answers to some of those most frequently asked—and most important to U.S. companies.*



information from the department's Single Internal Market Information Service.

Commerce also has conducted more than 30 seminars and 12,000 individual counseling sessions for small businesses, he says. (You can direct your general-information requests to the Single Internal Market Information Service, U.S. Department of Commerce, Room 3036, Washington, D.C. 20230; 202/377-5276.)

The Small Business Administration (SBA) is providing financial aid to qualified small businesses that wish to participate in trade missions to Europe, says Susan Engeleiter, the head of the agency. European trading companies and other participants from the EC have been invited to participate in SBA's Export Expo 1990 trade fair, March 27-30, 1990, in Seattle. (For more information, write the U.S. Small Business Administration, Office of International Trade, 1441 L Street, N.W., Washington, D.C. 20046, or call 1-800-368-5855.)

A directory of the dozens of offices in several U.S. departments and agencies

responsible for tracking one or more aspects of EC92 and assisting business is included in the U.S. Chamber's guide to EC92.

**Q.** What is the "social dimension" of EC92, and is it of potential importance to U.S. businesses?

**A.** In most European countries, labor unions exert much more influence over business planning and operation than they do in the U.S. In West Germany, for example, workers are represented on supervisory boards and have a voice in corporate strategic planning. Also, European governments have approved extensive but differing social-welfare systems. Labor lobbying for a generous package of community-wide rights and benefits is the "social dimension" of EC92. Several pending pieces of legislation relate to this dimension. The European Company Statute, which would facilitate mergers and joint ventures across national lines, mandates employee participation in management decision making.

In addition, there are significant labor-rights provisions in the Fifth Directive, governing corporate-management structures; the Ninth Directive, addressing the relationship between parent companies and subsidiaries; the

Tenth Directive, involving cross-border mergers; and the Thirteenth Directive, governing takeovers.

Unions also are pressing for a directive on worker safety and health and a social charter guaranteeing things such as free circulation of labor, fair wages; right to management information and consultation; and protection of children, the elderly, and the disabled.

U.S. firms ought to keep close track of developments on these and later directives concerning European labor-relations. Large businesses with European subsidiaries will be the most affected because they will have to play by new EC rules. Large and mid-sized firms planning investments in post-1992 Europe may want to reconsider if new labor regulations are too costly and intrusive. On the other hand, exporters to Europe may find their products more competitive than expected if European manufacturers' compliance costs offset many of the cost-saving efficiencies gained from other aspects of EC92.

Information on EC92's social dimension is available from several U.S. government agencies, led by the Bureau of International Labor Affairs, U.S. Department of Labor, Washington, D.C. 20210; (202) 523-6565. And comprehensive information on the social dimension and related legislation is included in the Chamber's guide to EC92.

**Q.** The European environmentalists, referred to as "greens," seem to be gaining strength. Will the environmental movement help or hinder U.S. firms seeking to do business in the unified European market?

**A.** Environmentalists, who view EC92 as an ideal opportunity to strengthen and harmonize pollution-control and resource-conservation standards, are gaining strength. In recent elections to the European Parliament, "green" candidates captured 39 seats, more than four times the number they held previously. In response, the European Commission has proposed scores of environmental directives, and many of them have been adopted already. They deal with everything from air, water, and noise pollution to recycling, handling and disposing of toxic substances, and preserving endangered species.

U.S. firms, too, should track environ-



PHOTO BY MICHAEL BEZ



## INTERNATIONAL TRADE



mental developments in the EC closely. U.S. businesses with European subsidiaries, like their EC competitors, will have to comply, probably at substantial cost. Exporters to Europe also could face increased compliance costs, for example, if only biodegradable packaging is permitted.

On the other hand, U.S. firms in the environmental-technology manufacturing and consulting industries will likely find lucrative new sales opportunities in post-1992 Europe.

More information is available in the Chamber's EC92 guide and from the U.S. Environmental Protection Agency, Office of International Activities, 401 M Street, N.W., Washington, D.C. 20460; (202) 382-4870.

**Q.** Does it appear U.S. firms will be allowed under EC92 to compete for a bigger share of the \$600-billion-a-year European government-procurement pie than the meager slice available to them now?

**A.** Directives governing public-sector purchasing of everything from buildings, dams, and roads to goods and services of all kinds are not final yet, but the EC pledges it will substantially open the procurement process.

For example, the directives will provide for increased disclosure of the new and larger number of bidding opportunities and the fewer exceptions to the competitive-bidding process. However, do not expect these directives to be a total triumph for free enterprise. In almost all cases, U.S. firms' products will be subject to 50 percent EC-content requirements, and their bid prices will have to be at least 3 percent lower than their EC competitors' prices.

Some of the most lucrative public-procurement opportunities could be available to small American service businesses in industries including architecture, environmental and industrial controls, laboratory and medical diagnostics, waste management, and educational training.

Among the government agencies following procurement legislation is the U.S. Trade Representative's Office of GATT Affairs/Government Procurement, 600 17th Street, N.W., Washington, D.C. 20506; (202) 395-3063. Details also are available in the Chamber's EC92 guide.

**Q.** Are the dramatic economic and political changes under way in Eastern Europe likely to affect prospects in the unified EC market for U.S. firms?

**A.** "Much farther down the road," says Archey, the U.S. Chamber's vice president for international policy. Although the Eastern European nations form a market of 420 million people, he says,

*It seems clear now that "there is no secretive nefarious plan in EC92. Instead, there is widespread commitment . . . to move toward integration in the context of freer competition and less government regulation."*

WILLIAM T. ARCHEY  
VICE PRESIDENT/  
INTERNATIONAL  
U.S. CHAMBER OF COMMERCE

these nations still lack "the viable economic systems necessary" for large-scale exporting or importing.

The best Eastern European candidates for trade relationships, including Poland, Hungary, and Czechoslovakia, have to overcome daunting problems such as price reform, currency inconvertibility, and transforming state-run businesses into productive private enterprises. However, Western European subsidiaries of U.S. firms will be well positioned to seize trade and investment opportunities in Eastern Europe as they do arise.

Negotiations under way between representatives of the EC and the Soviet Union are probably the most accurate measures of the current state of diplomatic and trade affairs among nations of Eastern and Western Europe. Says Frans Andriessen, EC commissioner for external affairs: "This agreement will mark the culmination of the process of normalization of the [European] Community's economic relations with Eastern Europe. It will be an ambitious agreement covering trade, commercial, and economic cooperation whose scope matches the importance of the two parties, their expectations, and the dynamics of their economic systems."

U.S. companies considering trade in Eastern Europe should keep abreast of export-control developments in these and other EC negotiations with Warsaw Pact nations. EC countries seem much more inclined than the U.S. to allow transfer of technology to Eastern Bloc states. If the EC lifts controls on items that the U.S. keeps on its restricted list, American firms will be at a competitive disadvantage as Eastern European markets emerge.

**Q.** Overall, is EC92 still more good news than bad news for small to mid-sized U.S. businesses, and what should firms of

this size be doing now to maximize opportunities?

**A.** Based on actions of the EC thus far, it still appears EC92 will provide U.S. businesses of all sizes with tremendous market opportunities. It seems clear now, says the Chamber's Archey, that "there is no secretive nefarious plan in EC92. Instead, there is widespread commitment . . . to move toward integration in the context of freer competition and less government regulation."

However, some businesses in some industries will still likely encounter what in effect are nontariff barriers to trade with post-1992 Europe. The community does not seem to be traveling down the road to market integration with a thoroughly considered long-term strategy.

Day-to-day decisions are outrunning development of underlying policies in some cases, which no doubt will result in some bad decision making.

Last fall, for example, U.S. Trade Representative Carla Hills met with EC decision makers in Brussels to express concern about what she viewed as protectionist tendencies in some draft directives, including one covering imports of television programming. Hills characterized the meetings as "gratifying and most constructive." She said she was "optimistic" that EC92 would not harm U.S. television producers, who last year sold more than \$600 million worth of programming to stations in the EC. But within a month, the EC finalized its broadcasting directive, and it requires all stations to carry at least 50 percent European-produced programming "where practicable."

This and other examples of inconsistencies and attitude changes within the EC point out how essential it is that foreign firms keep informed of the up-to-the-minute status of community proposals, especially those concerning rules governing national origin of products, local-content requirements, and product standards and certification. If any protectionism is to take root within the community, those are the areas where it most likely would arise.

EC92 watchers in the public and private sectors have two bits of advice for U.S. firms interested in the market-integration process: Read and ask.

Daily newspapers will provide some general coverage. Magazines such as *Nation's Business* will provide more. And still more can be gleaned from specialized publications. But for specific, detailed information about what the process is likely to mean to your firm, there is no substitute for inquiries of U.S. government agencies, broad business organizations such as the U.S. Chamber, and your industry's trade or professional association. **B**



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## WORKPLACE

# Wellness Works For Small Firms

By Howard Rothman

**W**hen Greg Scherer attended a "Wellness in the Workplace" seminar in 1979, little was known about the mechanics—or the potential benefits—of company-sponsored programs of health promotion for employees. Even less was understood about initiating such efforts in a small business such as Scherer's, then a Minneapolis lumber company with 115 employees.

Today, Scherer Brothers, with 280 employees and a new location in nearby Brooklyn Park, spends an average of \$90 a year per employee on its wellness program, says Lisa Wirtz, the company's benefits administrator. The firm has adopted a philosophy of allegiance to the wellness concept: "To create and support a healthy lifestyle and attitude in the workplace and at home."

The company removed all cigarette and candy machines from the premises,

replaced caffeinated coffee with decaffeinated, and now offers free healthful lunches and snacks to employees. In addition, employees are offered classes and educational materials on quitting smoking, losing weight, and preventing back injuries. They can have their blood pressure monitored if they wish, and they can take part in the company's yearly cancer screenings. Scherer Brothers also gives bonuses to those who were not absent or late during specified periods.

As a result, absenteeism at the company is about one-eighth the industry average. "We feel that the wellness program is a benefit to our employees and is used and enjoyed by many," Wirtz says. She adds that trying to put a dollar figure on the program's benefits to the company and its employees "is not important at this time."

**After-work workouts** for employees at the Safeway Bakery Division in Clackamas, Ore., take place in a gym built with money they raised through a nonprofit corporation.

*Rising costs of employer-provided health insurance are prompting firms to adopt workplace wellness programs for employees.*

Other companies, primarily major corporations, have attached dollar signs and discovered that wellness programs can have a positive effect on the bottom line. Johnson and Johnson's "Live for Life" program has reduced its annual insurance costs by \$150 per person, although the program costs the company \$120 per person each year. Pillsbury figures that every \$1 spent on its "Be Your Best" wellness program produces a \$3.63 saving in health-related costs.

A two-state study of mid-sized companies with wellness programs showed they cut absenteeism—30 percent in Michigan and 50 percent in Indiana. Reduced absenteeism saved the Indiana employers an estimated \$180,000 over four years, according to the study, sponsored by Blue Cross/Blue Shield.

Recent double-digit percentage increases in the cost of employer-provided health insurance have caused many companies to pay more attention to promoting healthy lifestyles. For example, Control Data Corp. found that employees who smoke at least one pack of cigarettes a day generate 18 percent higher health-care claims than non-



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## WORKPLACE

smokers. Persons at high risk for hypertension have 11 percent higher health claims. And individuals who are 30 percent or more overweight have health claims 11 percent higher than those who are 20 percent overweight.

Although many wellness programs are operated at large companies, "No company is too small" to benefit from such a program, says Lynn Gilfillan, community wellness representative for Coors Brewing Co. in Golden, Colo. Gilfillan helped Marshall Distributing, a 10-employee Coors distributorship in Fort Collins, Colo., set up a wellness program that includes back-injury prevention and subsidized health-club memberships. She calculates that an effective wellness program costs \$20 to \$100 per employee each year, depending on the range of program offerings.

At the 170-employee Safeway Bakery Division in Clackamas, Ore., the workers formed a nonprofit corporation called Buns on the Run and raised money to build a 5,000-square-foot fitness facility, complete with a gym and showers. It serves as the centerpiece of the company's wellness program.

The following guidelines, drawn from recommendations by a variety of wellness-program experts, could be useful for you in setting up your own wellness program:

**Define your objectives.** Decide what the program should achieve overall, and identify the people, facilities, and resources you can commit to the project. A consultant's advice could be helpful at this stage.

**Identify your needs.** Determine your employees' health problems and needs. Consultants may be helpful—uncovering health problems in the work force, deciding which programs employees likely would embrace or reject, and identifying both company and community resources that could help you implement a wellness program. A good first step in this direction is to have employees complete a health-risk appraisal and an attitude survey. The appraisal, says Dan Lynch, president of the Indianapolis-based Association for Fitness in Business, costs around \$4 per worker and pinpoints employees' specific health problems.

**Address your problems.** Smaller companies rarely need expensive, staff-run, on-site facilities, says William Horton, president of Fitness Systems Inc., a Los Angeles firm that develops company programs. "With a company under 300 employees," he says, "it is more cost-effective to go to a nearby commercial facility like a YMCA."

In fact, nonprofit as well as for-profit



PHOTO: © STEVE WEIT—PICTURE GROUP

**A healthful lunch is part of a wellness program, says Lisa Wirtz.**

## For More Information

These organizations can supply further information on wellness programs:

The National Center for Health Fitness, American University, 4400 Massachusetts Ave., N.W., Washington, D.C. 20016; (202) 885-6275. Offers publications and other information on employee fitness in the workplace.

The Center for Corporate Health Promotion, 1850 Centennial Park Drive, Suite 520, Reston, Va. 22091; (703) 391-1921. Offers products and support for lifestyle-management programs.

Washington Business Group on Health, 229½ Pennsylvania Ave., S.E., Washington, D.C. 20003; (202) 547-6644. The group's Prevention Leadership Forum publishes reports on work-site wellness subjects. The reports are \$15 each or \$210 for the full set of 16.

Association for Fitness in Business, 310 North Alabama St., Suite A100, Indianapolis, Ind. 46204; (317) 636-6621. Can supply names of businesses and consultants in your area to help you start a wellness program.

National Health Information Clearinghouse, P.O. Box 1133, Washington, D.C. 20013; (202) 565-4167. Offers information and referral services for 1,000 health-related agencies, and will supply free health-style check-up forms to help employees appraise their personal health.

organizations design and implement programs to meet the needs, budgets, and time constraints of small firms. At the Coors distributorship, for example, recurring job-related back injuries were addressed through a variety of community resources. Representatives from a local hospital's occupational work center met with employees at the workplace, videotaped them performing their regular tasks, and then recommended certain educational programs and remedial exercises, which the employer then offered to employees.

**Reinforce your efforts.** Continually demonstrate your full support for the project. Some companies do this through formal policies such as on-site smoking bans, flextime for exercise, and even a "well-pay" program such as that used at Scherer Brothers Lumber.

The Washington Business Group on Health, a health-policy organization whose members are major companies, has identified other innovative and generally inexpensive means of support. These include regularly distributing free healthful snacks such as popcorn and fruit, installing showers and bicycle racks on company premises, sponsoring bike and road races, and awarding cash or merchandise to employees who meet certain health-promotion goals. "The use of incentives to promote good health is a logical extension of business's success in offering incentives to improve work performance," says Willis B. Goldbeck, president of the Washington Business Group on Health. (To contact this or other groups concerning wellness programs, see the box at left.)

**Monitor your progress.** Periodically assess your program's performance. You can learn which parts of the program have drawn satisfactory rates of participation and which have failed to attract sufficient numbers of employees.

Many companies find it useful to have a consultant help design and implement a wellness program. "A consultant can help keep you on track," says Ed Menges, president and general manager of Marshall Distributing, in Fort Collins.

But if you decide to go it alone, you can obtain information on low-cost workplace wellness programs through organizations such as the Red Cross, the American Cancer Society, the American Heart Association, and Blue Cross/Blue Shield.

No matter how you decide to proceed, keep your employees well informed. "Don't change all of the vending-machine candy into apples one night without telling employees when and why it is happening," says Gilfillan. "Don't start out with surprises." ■



## TECHNOLOGY

# Quick Checks

By Jack Wynn

When Nick Garguile, owner of the three-store Red Apple Markets grocery chain in Bremerton, Wash., tells of dealing with bad checks and stolen-credit-card charges, he talks of "necessary risks" and "unbelievable hassles." But like an entrepreneur enthusiastic about a new idea, Garguile speaks of the "godsend" and the "miracle" when he describes his newly installed electronic point-of-sale verification system.

The POS system that Garguile uses verifies checking-account and credit-card numbers and, perhaps most important to the small-business person, guarantees check purchases. "If the check

dog" rejects about 10 checks a day. Since the system was installed last January at Red Apple Markets, the stores have had no bad credit-card charges.

Garguile is typical of thousands of small-business people experimenting with new high-tech electronic POS verification systems. His system, produced by the Seattle-based Celerex Corp., can validate both checks and credit cards without telephone calls to credit-card centers for authorization.

National Data Corp. of Atlanta, one of the nation's largest electronic processors of credit-card transactions, has introduced a POS credit-card validation system based on satellite technology

*Point-of-sale systems that verify checks and credit cards cut small firms' risks of nonpayment for consumer purchases.*

nerability to con men," says John David of Amber's Chicken Kitchen, a four-store restaurant chain south of Los Angeles. Amber's grosses around \$5 million a year, does not accept credit cards, and cashes only local checks. But David says he is investigating new POS systems because "every time we turn away a check or credit card, we lose a sale entirely or limit a purchase to the amount of customer cash; either way, we lose money."

According to Cristie Drumm of the Denver-based Payment Systems Education Association (PSEA), nearly 51 billion checks will be written in 1989, and about 28 billion of them will be written



PHOTO: RICH FRIEDMAN



Supermarket cashier Janet Garguile verifies a customer's check with the Celerex system, used also for credit-card purchases in the stores owned by her father-in-law.

bounces after the computer says it is OK, I get all of my money back," Garguile says. His comment refers to the money-back guarantee that TeleCheck Services Inc., a Denver-based authorization service, gives on any checks that are validated by the Celerex system and later returned by a bank.

Garguile's three grocery stores take in about \$12 million a year, processing about 60 checks and 25 Visa and MasterCard transactions per day at each store. Garguile says his new "watch-

dog" developed by Indesys Inc. of Sunnyvale, Calif.

Other major players in the arena include Visa and American Express. They are developing credit-card-only verification systems that they hope will be fast and cheap enough to be accepted by high-volume, low-margin businesses such as fast-food restaurants and convenience stores, which currently accept only cash payments.

Why are small-business people pushing for faster, cheaper POS verification systems? "It is hard economic reality, a matter of trying to satisfy customers and increase profits while reducing vul-

nerability to con men," says John David of Amber's Chicken Kitchen, a four-store restaurant chain south of Los Angeles. Amber's grosses around \$5 million a year, does not accept credit cards, and cashes only local checks. But David says he is investigating new POS systems because "every time we turn away a check or credit card, we lose a sale entirely or limit a purchase to the amount of customer cash; either way, we lose money."

PSEA is a trade group for the electronic-payment-systems industry, which includes not only makers and marketers of the equipment but also those who use it, such as banks and credit-card firms.

Drumm says a recent PSEA-sponsored survey found that paying by check is preferred by 72 percent of consumers, 21 percent would rather pay

Jack Wynn is a free-lance writer in Alexandria, Va.



## TECHNOLOGY

with cash, and 5 percent prefer using credit cards.

H. Spencer Nilson, editor and publisher of the *Nilson Report*, a biweekly banking-industry newsletter based in New York City, estimates that the total number of checks written in 1992 could exceed 57 billion, with nearly 30 billion written by consumers. He says the U.S. is not likely to become a "cashless, checkless society" anytime soon.

At National Data Corp. (NDC), systems expert Robert Murphy says his company offers merchants a variety of check and credit-card verification services that range from "calling up a regional operator for voice verification to on-line computer networks and systems based on satellite linkups."

Most customers of NDC's credit-card validation system use a POS terminal that "reads" the magnetic stripe on a credit card and automatically telephones the closest NDC computer, which relays the call to NDC headquarters in Atlanta. Then, depending on the type of credit card, Murphy says, NDC "forwards the call to, say, Visa or MasterCard, which hands it off to the actual bank that issued the card."

After the bank validates or rejects the card, the information is flashed

down the chain to the waiting merchant. The whole process is automatic, Murphy says, and rarely takes more than a few seconds, "as long as there are no high-volume traffic delays." Merchants pay a usage-based fee for telephone-line time and an average of 10 cents for each credit-card validation.

A special NDC terminal is also available for storing transaction information and transferring it to merchants' banks at the end of the day. The transfer charge is 12 to 17 cents per credit-card transaction.

Working with satellite-technology experts at Indesys Inc., NDC has developed a point-of-sale system that allows merchants to validate credit-card purchases within one or two seconds by checking them against "stop" files of bad account numbers stored in an on-site computer. Merchants must install a satellite antenna to receive daily file updates from Indesys. The system costs \$1,200 to \$1,500, and there is an additional charge of 7 cents for each credit-card verification.

For check verification, Murphy says, NDC installs a computer-based system that approves checks written by customers who have been approved for check-cashing privileges. A customer

applies for such privileges by supplying detailed loan-account information. On approval, the customer receives a check-cashing card, and the customer's account number is stored in the computer. There is no reimbursement guarantee for a check returned by the bank. Murphy says NDC charges 10 to 15 cents for each check validation.

In 1988, Visa began testing its "express payment service" at 17 Arby's fast-food restaurants in Phoenix, Ariz., and at 14 Wendy's restaurants in Columbus, Ohio. Each restaurant has a computerized FM receiver linked to POS credit-card readers. If a credit card is validated, the transaction will be made. Every day, Visa transmits to the computer a list of numbers for "hot cards"—those that are not acceptable—circulating in the immediate area. Credit-card transactions are stored in the computer and transferred to banks at the end of the day.

The Celerex system that Nick Garguile uses is known as an "off-line" system because time-consuming off-site telephone calls are not needed to authorize a purchase. It provides merchants with instant verifications for both check and credit-card purchases.

Celerex Chairman Tom Kegley says the system is based on a microcomputer; it is installed at each store and contains the entire nationwide "stop" files for MasterCard, Visa, and Discover credit cards and a national list of bad-check numbers supplied by the Tele-Check authorization service.

The computer is linked to Celerex POS terminals that "read" both credit cards and checks and flash the information to the computer, where it is compared with the "stop" file lists.

At the end of a business day, merchants go on-line for 40 seconds, while they send all credit-card transaction information to Celerex by modem linkup over standard telephone lines. Celerex then sends the transactions for settlement to processing banks. During the on-line connection, Celerex also updates credit-card and check-stop files.

Kegley says a merchant would pay about \$125 per month in equipment and service charges for a one-terminal system.

In coming months, many more small, mainstream American businesses, such as parking lots, theaters, restaurants, and convenience stores, are expected to experiment with POS systems designed to speed customer service while providing state-of-the-art protection against fraud. ■

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## FRANCHISING

# Franchising's House Calls

By Meg Whittemore

**Y**ou and your spouse both work, dinner hasn't been planned, you want to pick up a video to watch tonight, your mother should see a doctor, and you need to remove the living-room drapes and take them to a cleaner.

Where do you find the time to deal with all this? For many people today, the answer is a home-delivery service, a fast-growing sector of franchising.

In an age of concern about declining customer service, franchising has stepped in with some new twists—and a few old customs updated—in the field of to-your-door service. John Reynolds, marketing director for the International Franchise Association, says consumers last year poured "billions of dollars" into a wide array of home-delivered franchised services—from pet care to physicians' visits.

Volume of business is the key to the success of these franchises. Linda Mudd, vice president and founder of Doctors To Your Door, a referral service, estimates that her headquarters office, in Louisville, Ky., will schedule about 20,000 physician house calls in 1990.

Mudd says there is a growing number of people who, to some degree, are confined to home and would prefer to have physicians come to them for essentially routine care. "People are living longer, and when a patient is homebound, he or she can get to the doctor's office only with considerable effort and expense," she says. "I felt that just wasn't right."

Mudd, 65, who has been a nonmedical specialist in the field of home health care for 25 years, decided to bridge the gap between the at-home patient and the community of physicians. "I felt

that many doctors were looking for an alternative style of practice," she says. A classified ad in a Louisville newspaper proved her correct. Fourteen doctors responded, their licenses and credentials were reviewed carefully, and they became the core of Mudd's first Doctors To Your Door enterprise.

DTYD, which now has three franchises in the Louisville area and Cincinnati, acts as a referral agency between

the patient and the physician, and it also handles Medicare and Medicaid paperwork for elderly shut-ins. Doctors provide their own transportation and insurance. DTYD charges a \$25 fee to the physician, who in turn charges the patient. (In Louisville, Medicare will pay \$40 to \$45 for a house call.) The referrals that the Louisville headquarters office expects to make next year will generate about \$500,000 in income.

DTYD franchises sell for \$25,000 to \$75,000, depending on the market size, and pay monthly royalties of 5 percent on sales plus a 1-percent advertising fee.

"The time has come for us to face the reality of our aging population and offer systems of care that mirror our changing needs," Mudd says.

"Mobile anything has a bright future," says George Louser, 56, founder of Wash On Wheels, a mobile power-washing franchise based in Orlando, Fla. WOW, begun 25 years ago in Gettysburg, Pa., offers customers up to 14 cleaning services in one visit. "We wash carpets, ceilings, upholstery, drapes, driveways, roofs, pools, patios, and the entire house exterior," says Louser.

There is a "don't move, improve" trend taking hold across the country, he adds, and the residential market keeps WOW's 109 franchisees financially liquid. This underscores Louser's belief that success has three main ingredients: "cash flow, cash flow, and cash



At home in Louisville, Ruth Highsmith is examined by Dr. Rodney Peterson.

PHOTO: LARRY SPITZER



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flow." Residential customers pay \$125 to \$250 for a WOW service call, depending on the amount of cleaning done. "Franchisees average three to four homes a day," says Louser, "which translates into a healthy cash flow."

It costs \$12,000 to \$18,200 to start a WOW franchise, and Louser supplies much support. "We are with the franchisee for the first 125 days, which is a great head start," he says. WOW provides equipment, training, marketing, and a telemarketing blitz to commercial accounts in the franchisee's market. Owners operate out of their homes, and they pay a 3-percent monthly royalty on sales up to \$6,000 and 2 percent on sales above that. In addition, the franchisee pays a monthly advertising fee of 1 percent.

Louser's formula—giving time-short consumers necessary services by well-trained franchisees—appears to be working. WOW rang up \$1 million in sales in 1989.

For Frank Jordan, cashing in on the home-delivery concept meant tapping into consumers' appetite for videocassette films.

Jordan, 40, founded Video Van in 1987 in Salem, N.H. The firm offers home delivery and pickup of current and classic videos. "The concept in-

volves convenience to the customer and volume business to us," he says.

Jordan estimates that his 20 franchises produced \$1.2 million in revenue and \$500,000 in profits for the first three quarters of 1989. For \$25, a customer receives a one-year membership, a catalog of movies, and a patented lock box for the front door. Tapes rent for \$3 each and are dropped off and picked up at the customer's home. Jordan says most customers rent eight to 10 movies monthly from Video Van, double the national average for customers who go to video stores for their films.

Start-up costs for a franchise come to \$22,500. Each month the franchisee pays a royalty of 5 percent of sales and an advertising fee of 4 percent. Jordan says he plans to grow fast with his concept: "Profit doesn't necessarily have to be related to originality."

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# Writing The Book On Employees

By Randall G. Hesser

**A**n employee handbook can be a double-edged sword.

A well-drafted handbook can set forth a company's policies and practices in a way that helps make new employees loyal and productive workers. But a poorly drafted handbook can tie a company's hands and result in disputes on policies ranging from vacation schedules to discipline.

An employee handbook is a company's written introduction to its new employees and its first chance to make a good impression. Both the employees and the company want a mutually satisfying and rewarding employment relationship. The company also wants to build the employees' loyalty and morale, and, perhaps, to use the handbook to brag about the company's product, history, and employee benefits.

But in a growing number of states, handbooks are being regarded as more than a simple introduction. Courts have held that an employee handbook creates what amounts to an employment contract, with its provisions enforceable against the company.

In most states, a nonunion worker, unless he or she has an individual employment contract, is employed at will. This means that either the employee or the company can terminate the employment relationship at any time for any reason that is not illegal.

In most states, very few reasons are illegal. A company obviously cannot terminate an employee on grounds of race, religion, gender, age, or national origin. In almost every state it is illegal to terminate an employee for filing a worker's-compensation claim. In most states, employment at will generally means that a company doesn't need "just cause" to terminate or discipline an employee, so long as the company is acting within the law.

A poorly drafted handbook can

*Randall G. Hesser is a partner in the Elkhart, Ind., law firm of Warrick, Weaver & Boyn. Its services to business clients include advice on the preparation of employee handbooks. The material in this article is provided for general information and should not be relied upon as legal advice generally or in any particular situation.*



ILLUSTRATIONS: RICHARD WALDRER—EUCALYPTUS TREE STUDIO

**A firm's hands can be tied and disputes can arise if the company's handbook is drafted poorly.**



**The ability to modify the handbook is necessary for proper management of the company.**

change that relationship. In states that consider employee handbooks enforceable, a court will interpret vague provisions of the handbook in favor of the employee because an employee handbook is drafted by the company, rather than negotiated with the employees. If a handbook lists specific plant work rules, for example, a court might say that an employee cannot be disciplined for conduct that is not clearly prohibited by a specific rule. If the handbook provides for progressive discipline, a company could be held liable to an em-

ployee for bypassing that procedure.

What makes this most alarming is that these issues typically arise in the worst kinds of cases. An employee may do something terrible that would constitute grounds for immediate dismissal under almost any standard of conduct, yet the employee's action may not fall within the handbook's specific list of prohibitions. Just as bad is handbook language that limits discipline to a "warning" for first offenses, regardless of the nature of the offense.

The employee handbook should not be written or presented in such a way as to prohibit modification, restrict necessary flexibility, or otherwise unduly burden the company. A firm should include in the handbook a strong statement that it is not intended as a contract of employment and does not constitute one; the handbook should state that continued employment is at the will of the company. The employee handbook should also specify that it is only a source of general information concerning the company's policies, procedures, and work rules as they exist on the date of publication.

Even if your state does not consider an employee handbook enforceable, your company should be prepared to be bound by the handbook as if it were a contract. It should be drafted so that the company retains enough flexibility to manage properly and, when necessary, discipline its employees. The section of the handbook covering plant work rules, for example, should specifically state that these rules are not intended to be a comprehensive list of all prohibited conduct, but are only examples of the kinds of conduct that may result in discipline. It should further say that the company reserves the right to take any disciplinary action, including suspension or termination, in all cases it deems appropriate.

Here are a few topics that generally are discussed in employee handbooks and that require careful drafting:

**Employee-benefit plans.** Employee handbooks often contain provisions that refer to benefits available to employees and their dependents. These benefits, such as retirement plans, group health plans, life insurance, and disability payments, may be established through plan agreements on insurance



*Draft your employee handbook carefully so that you retain flexibility to manage and discipline employees. Don't let the text become a contract that ties you in legal knots.*

policies. Employees usually receive summaries of plans or certificate-of-coverage booklets that outline the specific terms of those plans.

The employee handbook should not attempt to describe the benefits available under these plans. At most, it should briefly refer to the different plans available and should direct employees to see the plan or plan summary for further details. By mentioning specific benefits in the employee handbook, the company risks being unclear or even wrong about them and, therefore, exposing itself to liability.

**Hours and vacations.** Employee handbooks may contain provisions that state the company's hours of operation, starting and ending times for shifts, break times, and vacation information. In discussing these hours and vacations, the handbook should contain a specific statement that the company reserves the right to change them. Business conditions may require that hours and days be changed from time to time, and later disputes can be lessened or even avoided if the employees are told of this possibility in the handbook.

If the handbook discusses vacations, it should specify at what point an employee has earned vacation pay. It also should specify what happens when an employee leaves a company before his or her next earned vacation. In Indiana, for example, an employee who leaves a company is entitled to a portion of his or her next vacation pay, unless the company specified that there is no accrual of vacation pay. The handbook, therefore, might contain language that vacation pay does not accrue and is not earned until a specific date.

As to vacation scheduling, the handbook may contain guidelines that the company intends to follow. It should not, however, promise to assign vacation times based on seniority or on a first-come, first-served basis in all cases. Again, business conditions or other factors may make it burdensome for the company to be without certain employees at a given time. It is important that the company reserve its right to schedule vacations and to change vacation schedules when necessary. It is equally important that employees be told that this can happen, so that they won't be surprised if they find their



*Be specific about vacations, and reserve the right to change days off when business conditions require it.*



*Holiday-pay provisions should be drafted carefully to prevent excessive overtime and "pyramiding."*

vacation schedules have to be changed.

**Overtime and holiday pay.** The language on these provisions should be drafted carefully to prevent excessive overtime and "pyramiding." Simply put, pyramiding allows an employee to use the same hours more than once in calculating compensation. The result can be that, instead of receiving time and a half for overtime hours, the employee receives two or three times the normal compensation for those hours. Pyramiding could occur, for example, with a provision that allowed overtime

compensation for any time worked over eight hours per day and after the 40th hour in a week. An employee working five 10-hour days has already worked 40 hours after the fourth day. If the handbook language is not properly drafted, that employee is due overtime pay for all of the hours on the fifth day, even though he or she has already been paid overtime for eight of the previous 40 hours because of working more than eight hours a day.

**Drug and alcohol policies.** Drug and alcohol abuse in the workplace is an increasing problem, from the perspectives of liability and employee morale. To protect themselves and their employees, many companies have instituted drug and alcohol policies, which may include pre-employment screening, post-accident testing, and the right to conduct searches. These policies should be included in the handbook and should be written thoughtfully and carefully.

A strong policy puts employees on notice that the company takes this issue seriously and will enforce that policy. A written statement that lets employees know that lockers, cars, lunch boxes, and other places and things will be searched under appropriate circumstances may deter drug and alcohol use and may also lessen legal problems when it is necessary for the company to conduct such a search. Having a written policy in effect makes it harder for the employee to assert a right of privacy that allows the hiding of drugs or alcohol or even stolen property.

**T**here is no exact formula to follow in deciding what should or should not be included in your employee handbook. The items discussed in this article are just some examples. To a large extent, what your employee handbook should cover depends on the size, nature, and background of your company, your employees, and even your competitors.

The important point is that if you draft an employee handbook, do it right. Use it to introduce employees to the company by outlining your general policies, rules, and procedures. Don't let your employee handbook become a poorly drafted contract that ties you in legal knots and interferes with proper management. ■



# Courts Clamp Down On Boards

By Steven C. Bahls and Jane Easter Bahls

**W**hen electrical contractors Elmer Balvik and Thomas Sylvester incorporated their business, each received stock in proportion to the capital each contributed to the firm—70 percent for Sylvester and 30 percent for Balvik. The two men and their wives became directors of the corporation, Weldon Electric, in Jamestown, N.D. They elected Sylvester president and Balvik

profits, so Balvik received no benefit from his 30 percent ownership. He asked a court to dissolve the corporation and order that he be paid for his share.

North Dakota's Supreme Court recently declared Sylvester's actions "oppressive" and ruled that although the corporation need not be dissolved, the firm must pay Balvik \$15,000 for his stock. Balvik says the court "tried to

## Minority Shareholders

Often, when disagreements arise among those who own stock in a company with only a handful of shareholders, majority shareholders remove a minority shareholder from the board, fire him from his company job, and stop paying dividends. And usually a person who owns a minority of shares in a company with few shareholders cannot simply call a broker and sell those shares. With no ready market for the stock, minority shareholders in effect can be frozen out, holding an unmarketable investment that pays no return.

Increasingly, judges are requiring majority shareholders and directors to meet the reasonable expectations of minority shareholders. Although courts have long had the power to protect minority shareholders, they would not do so unless the conduct of the majority shareholder amounted to "oppression." Until recently, oppression was defined narrowly as conduct that violated the law or amounted to outright fraud. Within the past five years, though, numerous state courts have defined oppression of minority shareholders as violating the fiduciary duty of the majority to look after the interests of the minority and not frustrate their reasonable expectations.

In the Balvik case, the court noted that Balvik had quit his former job to join the new business, had made a substantial investment, derived the bulk of his income from it, and "quite reasonably expected to be actively involved in the business." The fact that he was "frozen out" entitled him to the court-ordered buyout.

In supplying remedies for minority shareholders, judges have required corporations to buy out the minority—an order that could cause serious cash-flow problems for most businesses—and have ordered boards to declare dividends to ensure minority shareholders a return on their investments.

Montanan Frank Norman Jr. spent seven years and \$100,000 in legal fees in a dispute with his sister, a minority shareholder who wanted to liquidate the family business he was running. His case went twice to the Montana Supreme Court, which ordered him to buy his sister's interest. "It saps your energy," he says of such litigation.

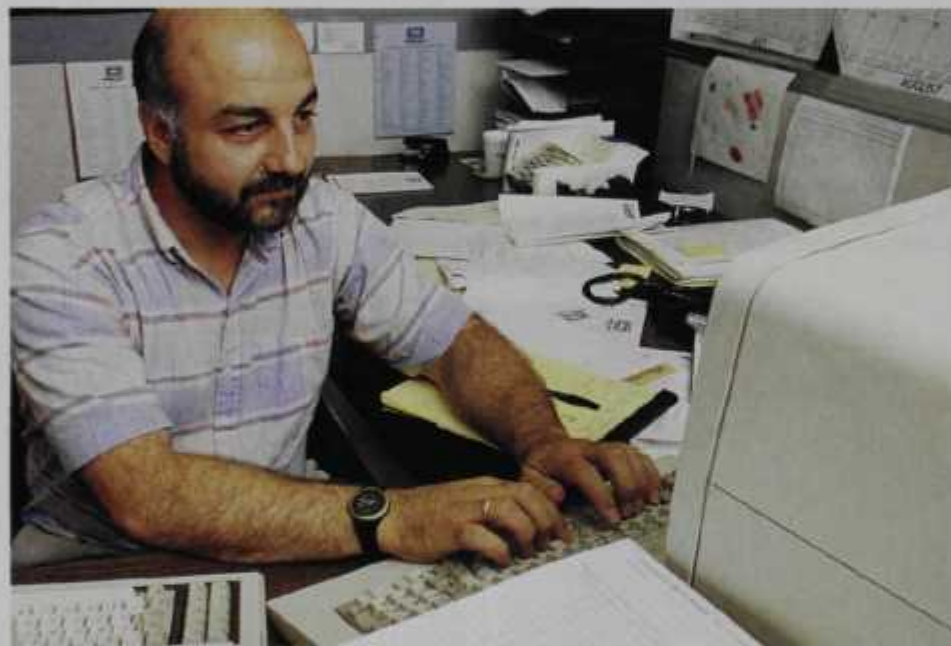


PHOTO: DIANE DULMEIER

**As majority stockholder in an electrical-contracting firm, Thomas Sylvester voted in a new board of directors and fired the minority stockholder.**

vice president. The men were paid equally and had equal decision-making authority.

When a dispute arose over management philosophy, however, Sylvester, exercising his rights as majority shareholder, voted in a new board of directors and fired Balvik. "My lawyer assured me I was within my legal rights," Sylvester says. "I thought the system was black and white."

The new board decided to reinvest all

make it fair for both sides," Sylvester says the stock's book value was lower.

The Balvik ruling exemplifies emerging legal trends that will affect small businesses as well as larger ones. Courts are backing away from two long-standing principles: that the majority shareholder necessarily rules, and that directors usually won't be second-guessed by judges. Courts now are stepping in more often on the side of minority shareholders. At the same time, corporate directors may be shielded less by the time-honored legal assumption known as the business-judgment rule, which has protected directors from liability for mistaken business judgments as long as they were made in "good faith."

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*Judges are chipping away some long-standing protections for board members' business decisions and are stepping in on the side of minority shareholders in closely held firms.*

"You don't know if you're coming on foot or on horseback."

Courts also have awarded compensatory damages to minority shareholders, have issued injunctions to prohibit further oppressive conduct, and have appointed receivers to continue the operations of corporations for the benefit of all the stockholders until the oppressive conduct ceases. Courts even have dissolved corporations to protect the rights of minority shareholders.

#### Directors' Liability

Courts unwilling to dissolve a firm or force a buyout may instead order the directors themselves to pay monetary damages to unhappy shareholders. (Boards of directors usually have liability insurance to cover such judgments.) Major decisions by boards of directors are being scrutinized more closely by courts for appropriateness.

A landmark case on directors' and officers' liability—a ruling that shook corporate boardrooms around the nation—was *Smith vs. Van Gorkom*, decided by the Delaware Supreme Court in 1985. The Delaware court sent the message that directors may no longer be insulated from liability by the long-standing "business-judgment rule," which afforded protection for business decisions made in good faith.

Jerome Van Gorkom, chairman of Trans Union Corp., had negotiated a deal to sell the corporation to a subsidiary of the Marmon Group Inc. Trans Union's board approved Marmon's purchase offer of \$55 a share, roughly \$20 per share above the market price at the time. No competing bids were sought, however, and Van Gorkom obtained the board's approval in a two-hour meeting, then signed the merger documents after a cursory reading at a benefit party for the Chicago Lyric Opera.

A group of shareholders sued, contending that the directors, by their allegedly slap-dash manner in approving the deal, had violated their duty of care—their obligation to the company to act in its best business interests. The Delaware Supreme Court ruled for the shareholders, saying the directors were not protected by the business-judgment rule because they had not exercised due care in their deliberations.

Trans Union's directors had done

what directors generally do: They had relied heavily on the recommendations of those in the corporation most familiar with the issue at hand. The Delaware court, however, found that directors must inquire into the motives and reasoning of their officers.

The Van Gorkom ruling signaled special problems for directors of small corporations; such firms usually can't afford to hire experts to advise on every

decision now bristle with exclusions, including pending or prior litigation, environmental damage, and payments of bribes or kickbacks.

Alarmed, the Delaware legislature passed a law that lets corporations limit directors' liability for breaching the duty of care, provided shareholders approve the change. New York, Pennsylvania, Ohio, and other states have enacted similar laws.

Many companies have asked shareholders to approve provisions protecting directors and officers from liability, provided they are not utterly reckless in carrying out their duties. Some companies are asking shareholders to surrender their rights to sue directors.

#### Avoiding Problems

The best protection against such legal troubles for closely held corporations is a shareholders' agreement that spells out each party's expectations. The agreement, which ought to be reviewed by a lawyer, should provide in advance for one side to buy out the other if irresolvable differences arise. It also should specify how the stock's value will be determined, how an appraiser will be selected, terms of payment, and how any deferred balance will be secured. Under such an agreement, the stock's purchaser will not have to scramble to pay cash in full.

If your board of directors includes a relative whose position is largely ceremonial, make sure the person understands the duty to stay informed about the business and consider decisions carefully. Making corporate decisions in an offhand manner invites lawsuits from disaffected shareholders.

When a difference of opinion arises in day-to-day business, encourage everyone to talk it out rather than submerge the dispute because it involves family members. If necessary, call in an experienced mediator or other neutral third party to help those in the dispute work out their differences. Going to court should be a last resort, because lawsuits are expensive, time-consuming, and stressful.

The current legal trends make it more important than ever for directors and officers to take their jobs seriously and for majority shareholders to treat the other shareholders fairly. **B**



PHOTO: MICHAEL J. GREEN

**Stockholder Elmer Balvik sued—and won—after his ouster.**

action. Decisions often must be made quickly on little more than a hunch.

These trends provide two lessons. First, directors no longer can plead ignorance when sued by shareholders, even if their role on the board is largely ceremonial. They must stay informed. Second, boards of directors must make sure they consider options carefully when making major decisions.

#### State Protections

Since the Van Gorkom decision, lawsuits against directors and officers have increased as much as 10 to 25 percent per year. Accordingly, the cost of directors' and officers' liability insurance has increased tenfold in three years, and formerly comprehensive pol-



## INTERNATIONAL TRADE

# GATT's Influence For Freer Trade

By Jeremy Gaunt

**N**ot long ago, Americans put spaghetti in the same category as white bread: food for filling up but certainly not haute cuisine.

Then came the yuppie generation, spaghetti became pasta, and pasta became a staple of upscale menus. Pasta production became a major growth industry of the 1980s, according to the National Pasta Association (NPA), in Arlington, Va.

At the beginning of the pasta boom, American producers found that their pasta was selling as well as the Italian-made variety.

Later, however, American noodle makers became alarmed when they learned that their Italian competitors' market share, though still relatively small, was growing at a faster pace than their share.

This might not seem unreasonable. Pasta is, after all, thought of as Italian. And if the Italians could produce pasta competitively enough to give Americans a run for their money in their home market, who but die-hard protectionists could object?

But American producers did object when they discovered that Italian pasta manufacturers were being subsidized by the 12-nation European Community (EC).

The Italian pasta makers were getting money from the EC for every sale they made in the U.S.

The NPA petitioned the U.S. government to file a grievance with administrators of the General Agreement on Tariffs and Trade (GATT), an international treaty under which most world trade in goods is conducted. The pact is widely credited with helping to break down tariffs since World War II.

The U.S. government complied, and one year later a GATT panel in Geneva ruled 3-to-1 in favor of the U.S. complaint.

For GATT, it was a fairly straightforward matter. Article 9 of the agreement expressly forbids subsidizing processed agricultural products such as pasta.

Though the panel's ruling was blocked by the EC and therefore never formally adopted, the U.S. and the EC

subsequently forged a bilateral accord on the issue, and Italian pasta sold in the U.S. is no longer subsidized.

The issue of tariffs and subsidies related to processed and unprocessed agricultural commodities is among the stickiest of the more than a dozen major issues now under discussion by the nearly 100 GATT member nations. They are entering the final year of negotiations in the Uruguay Round of GATT talks, so named because they commenced three years ago in the seaside town of Punta del Este, Uruguay.

These talks are of great importance to American business owners. As the pasta anecdote shows, an orderly system of international trade can be crucial to American firms, even those that do not import or export directly.

Without GATT or some other body to set the rules of world trade, many economists and politicians believe, the pasta incident and countless others like it could lead the world into a vicious circle of protectionism and retaliation, the same process that brought on worldwide depression in the early 1930s.

GATT does not always work smoothly, however.

Disagreement between the U.S. and the European Community over the long-term future of agricultural subsidies almost paralyzed GATT a year ago, at a Montreal meeting called to review progress at the midpoint of the four-year Uruguay Round.

If the U.S., the EC, and Japan had not committed themselves at a second meeting last April to working at lowering their own subsidies of agricultural commodities in the long run, GATT could have unraveled completely, many observers feared, and countries could have begun abandoning hard-won multilateral trade agreements in favor of protectionist measures.

This would have been dreadful news to businesses across the globe, including those in the U.S.

**A**merican businesses have been among the main beneficiaries of the freer trade fostered by GATT since World War II.

Lower barriers have meant not only more accessible markets abroad for American products but also healthy, if not always popular, competition at home.

ILLUSTRATION BY J. TODD



Jeremy Gaunt is a reporter based in London.



*Settling trade disputes that could trigger economically stifling protectionism is one way that GATT, a trade treaty signed by nearly 100 nations, helps U.S. businesses.*

The competition, though causing some distress in some U.S. industries, has led to a far healthier U.S. business climate and a higher standard of living for Americans.

Lower prices brought on by fair competition and open foreign markets have meant that consumers have been able to buy more goods.

This has engendered more demand, which has created more employment, which has meant more spending by consumers, more business opportunities, and so on through the wealth-creating upward spiral of supply and demand.

Competition also has ensured that American businesses have stayed on their toes—all to the good for business and the U.S., not to mention the world.

Although the Uruguay Round of talks could collapse, that possibility seems to be diminishing for several reasons, including the Bush administration's strong resolve to reach an agreement. This, too, is good news for U.S. business. In general, America stands to benefit a great deal from some of the areas under discussion in the round, particularly the idea of extending GATT's barrier-lowering procedures to

a number of industries not already covered by the 41-year-old pact.

One of these is the services industry, which probably makes up about 30 percent of world trade. It is subject now to any number of barriers and unequal treatment in various countries.

A U.S. insurance company that wants to do business abroad, for example, finds that in many countries, foreign companies are either banned outright from setting up shop or face discriminatory regulations designed to make it difficult for them to do so.

This situation also affects U.S. businesses in need of services abroad that want to have local access to their domestic insurer.

Perhaps surprisingly, the Uruguay Round of negotiations on services has moved fairly smoothly, in part because major U.S. corporations have been lobbying hard for action.

But it also is because, to date, most of the discussion has been about principles, not specifics.

That will now change, beginning with the final negotiating drive about to begin.

The GATT negotiators have agreed

to divide the issue into six subcategories—telecommunications, finance, professional services, tourism, construction, and transportation.

Given the clout of the wealthy nations with lots at stake in this issue, further pressure to make progress can be expected.

Another current area of negotiation is intellectual-property rights. The problem here has been one of developed nations gaining adequate protection and enforcement of patents, copyrights, trademarks, and other proprietary business rights in less-developed countries.

Unfortunately, GATT's progress in this area has been slow, essentially revolving around a debate over what international organization should regulate intellectual-property rights.

Brazil and India, countries that believe they stand to lose the most by having GATT step into the fray, argue that an existing authority, the World Intellectual Property Organization (WIPO), is good enough to do the job. Wealthier countries—those whose patents and copyrights are being infringed—say WIPO has inadequate enforcement authority and maintain that GATT would be more effective.

The real problem is that businesses of richer countries want to protect their inventions and creations, while poorer countries want unrestricted access to intellectual property, which they believe will spur economic growth.

**T**he third major area of discussion in the Uruguay Round is one of the real sticklers: agricultural subsidies.

Both the U.S. and the EC prop up their farmers by guaranteeing prices and creating myriad regulations governing how much of what can be grown where. Their actions are popular with the farmers but are trade-distorting in the extreme.

The political pressures on negotiators have been huge, but faced with the possibility that GATT could unravel as a result of an impasse over agriculture, the U.S. and the EC did agree rather vaguely to a long-term inclusion of agriculture in GATT.

That's where matters will stay for a while. **B**





## INTERNATIONAL TRADE

## Origins And Operations Of A Global Trade Treaty

The General Agreement on Tariffs and Trade—widely known as GATT—is an international treaty designed to create an atmosphere of fair trade among its members. Ninety-six countries are full contracting parties to the treaty; 28 others (mainly former colonies of treaty signatories) benefit from GATT without actually being full members of the organization that was set up to administer it. Together these countries account for 90 percent of world trade.

In its simplest form, GATT strives to lower trade barriers and to seek freer trade between nations. It formulates agreements between nations for doing this and adjudicates, when possible, disputes that arise from it. To date, GATT has dealt mainly with trade in manufactured goods and raw materials, with the notable exceptions of textiles and agriculture.

It has been fairly successful, by most economists' reckoning. It is widely accepted that there are lower tariffs and fewer barriers to trade worldwide than

there would have been had GATT not existed. Here is how GATT works:

- All members of GATT share most-favored-nation status with one another. This means that whatever concessions are offered by one member to another must be extended to all members. There are exceptions, of course. A so-called safeguard clause, for example, provides countries with a way to limit sharply increasing imports that are causing serious damage to a domestic industry. Developing nations, too, are not expected to abide by quite the same rules as industrialized ones.

- If one member of GATT believes it is being treated unfairly by another, it can pass the complaint along to GATT headquarters in Geneva. GATT will then investigate the matter and make recommendations for solving the problem. About 90 percent of the disputes brought before GATT are solved.

- GATT meetings take different forms. A GATT council meets in Geneva about 10 times a year and deals with

all but the most serious policy matters. A larger meeting of contracting parties is held annually, also in Geneva. Member-state trade ministers agreed recently that they would meet under GATT's auspices every other year.

- Policy matters are discussed by GATT members in "rounds" of negotiations. There have been eight of these rounds since GATT was created in 1947, each dealing with various issues. The current one is the Uruguay Round, so named because it began in September 1986 in Punta del Este, Uruguay. It is supposed to expand GATT's mandate to cover trade in agriculture, intellectual property, and services. The midround meeting was held November 1988 in Montreal, and concluding negotiations are under way now in Geneva.

- Despite GATT's giant task, its operational organization is relatively small. Based in Geneva, it has about 350 employees and an annual budget of about \$40 million. The money comes from member countries, each paying a sum based on the percentage of world trade that it musters. The U.S. is, therefore, the largest contributor, paying about 16 percent.

That GATT not only continues to exist but also is fairly successful is quite remarkable. On paper, it is only the interim committee of an organization that never saw the light of day.

GATT was created on Oct. 30, 1947, in Havana, when 23 nations, including the U.S., signed a treaty stating their general support for fair trade and their opposition to trade protection. A year later, also in Havana, 53 nations decided to take the matter a step further. They signed the so-called Havana Charter, which called for the creation of the International Trade Organization (ITO). GATT was to be incorporated in the ITO.

The idea behind the ITO was to create an international body that would oversee international trade, spiritedly fending off the kind of protectionism that had ravaged the world's economies before World War II. It was to be similar to two other economic institutions created immediately after the war—the International Monetary Fund, which is concerned with exchange rates and acts as an international bank, and the World Bank, which is an international lending institution.

Neither the U.S. Congress nor the American business community was in favor of handing over trade matters to an outside entity, however. The decision by the U.S.—by far the strongest economic power in the world—not to approve the ITO was enough to sideline it. The ITO plan was never ratified. GATT, however, lives on. **NS**

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NS



# To Your Health

*Managing well includes managing your own health—advice to help you do that better.*

By Phyllis M. Barrier

## Boning Up On Calcium

You learned in childhood that calcium builds strong bones and teeth and that you get calcium by drinking milk. But there's more to calcium than that. Adequate calcium is important not only during childhood but also during adulthood—and not, as many people believe, for women only.

In fact, life would be impossible without calcium. Without it, nerve cells could not transmit impulses, muscles could not contract, and kidneys could not eliminate waste products.

In addition, scientific research has linked inadequate calcium intake with increased risk of developing major chronic diseases, including osteoporosis, hypertension, and colorectal cancer. All of these diseases are connected to both genetic and environmental factors, and calcium deficiency is one of the environmental factors.

**Osteoporosis.** This is a painful condition in which bones become so thin and brittle that they break easily. In 1984, a National Institutes of Health (NIH) panel reported that osteoporosis afflicted as many as half of all elderly women in the U.S., as well as nearly a quarter of older men. Estrogen deficiency, inadequate calcium, cigarette smoking, heavy alcohol consumption, insufficient exercise—all are factors in the development of osteoporosis.

Although getting enough calcium in youth and middle age can help ward off osteoporosis, calcium supplements probably don't do much good for people who already have it. Researchers say that elderly victims can slow down or stop the loss of bone mass more effectively by getting exercise, stopping smoking, and reducing alcohol consumption.

**Hypertension (high blood pressure).** In populations that consume low amounts of calcium, researchers have found, people are more likely to have high blood pressure. Several other studies have discovered that taking calcium supplements can lower blood pressure in some people who already suffer from



PHOTO: © RENE SHERET—FOCUS

*It's important to get plenty of calcium from milk and other foods during childhood—it builds strong bones and teeth—but adults need it, too.*

hypertension. In addition, pregnant women who take calcium supplements maintain lower blood pressure throughout pregnancy. Apparently, people who are genetically prone to hypertension may be able to protect themselves by taking in adequate calcium.

At this point, treating hypertension with calcium is still an experimental procedure and should be carried out only under a doctor's care. Consuming adequate calcium by eating the right foods is, however, a good idea whether hypertension is present or not.

**Colorectal cancer.** Colorectal cancer is the second most common form of cancer in men and the third most common among women. Researchers have reported that a diet high in calcium may reduce the risk of colon cancer among individuals who are prone to the disease. It appears that calcium helps remove bile acids from the colon; excessive bile acids may cause abnormal growth patterns in colon cells by acting as an irritant.

Even though more research is needed in this area, the preliminary evidence is just another reason to make sure that

your calcium intake is adequate.

But what is an adequate amount? Another NIH panel has recommended 800 milligrams per day for men and 1,000 to 1,500 milligrams per day for women (the high end of the range is for women who have had complete hysterectomies or are postmenopausal).

A cup of plain yogurt or 3 ounces of sardines (including the bones) contains about 400 milligrams of calcium; a cup of milk, a half cup of ricotta, a cup of fruited yogurt, or a slice of cheese pizza contains about 300 milligrams; an ounce of cheese averages about 200 milligrams; a half cup of ice milk or pudding, a cup of cooked dried beans, or a half cup of leafy greens (kale, bokchoy, or collards) averages about 100 milligrams of calcium.

At the end of each day, it's a good idea to review what you've eaten to see if you have received adequate calcium. If you feel you cannot get adequate calcium from the foods you eat, because of food allergies or dislikes, you may want to consider a calcium supplement, but most experts recommend that you make a real effort to get enough calcium from your food before you resort to pills. When you consume enough dairy products and other high-calcium foods, you also consume other nutrients you need to stay healthy. And some of those nutrients (vitamin D and lactose) help the body absorb calcium.

If you must use a calcium supplement, calcium carbonate and calcium citrate are the best sources. If you have a history of constipation, calcium phosphate would be a better choice, even though it has slightly less calcium than the other two.

## Employee Fitness Day Set

The second annual National Employee Health and Fitness Day, which is designed to promote exercise and fitness at the work site, will be held next May 16. More than 1,200 companies participated in the 1989 event through activities in their home communities.

Companies can obtain details on setting up their own programs for the upcoming health and fitness day by contacting NEHFD, Pan American Plaza, Suite 440, 201 South Capitol Ave., Indianapolis, Ind. 46225; (317) 237-5630. **NE**

Phyllis M. Barrier, M.S., R.D., is a nutrition consultant and nutrition coordinator for a Washington-area health-maintenance organization.



# It's Your Money

*A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.*

By Paul N. Strassels

## INVESTING

### Becoming A Good Stock Picker

Now that the stock market has not only recovered from the October 1987 plunge but has exceeded its all-time high a number of times and apparently survived the scare of last Oct. 13 without any serious damage, there is renewed interest in equities. Many people will advise you to go with mutual funds and leave the selection of stocks in particular firms to the experts. After all, the experts have the time, patience, training, and experience to pick winner after winner, and you don't.

Maybe, and maybe not. A lot of individual investors do just as well as the so-called experts. Many do even better.

The experts readily admit that they do not have an unblemished record when it comes to selecting stocks. On average, the brightest of the bright are right only two out of three times. Perhaps you can do just as well.

There are four things that successful market experts have in common. First, they don't bet their own money. Often, they are responsible for tens of millions of other people's dollars, but they don't have their own fortunes at risk.

Second, investment advisers diversify their holdings. They may have stocks in 15 different companies of various sizes and in different industries.

Third, they are completely unemotional about the securities they own. They don't feel they must stay with a stock because "it's bound to go up." They know a dog is a dog. If a security does not perform up to expectations, it's sold, and the money is reinvested in another company.

Fourth, they don't ride a stock down. Once they feel a stock has dropped far enough in price, it's gone from their portfolios. They may buy at \$20 and hold on while the stock rises to \$75. But as soon as that security drops, say, \$10, to \$65, they will bail out.

If you can diversify your invest-



PHOTO: © SAL OMARCO, JR.

*Free fall is for sky divers, not for stocks; set your bailout prices.*

ments, can be unemotional about your holdings, and can bail out when the getting is good, chances are you can pick with the experts. All you have to do is pick two winners out of three, and make sure the one loser doesn't hurt you badly.

### A Red Flag On Penny Stocks

Beginning next year, investors who buy low-priced, high-risk penny stocks over the telephone will find it easier to back out later, thanks to a new rule adopted by the Securities and Exchange Commission.

According to SEC statistics, almost 2,500 complaints about penny-stock fraud were received during the first half of 1989, compared with 1,500 for all of 1988. So, beginning Jan. 1, brokers offering these securities must obtain a new customer's written approval before the deal is completed.

Although the penny-stock market is a

legitimate arena in which to invest, the latest SEC rule should alleviate a problem with high-pressure phone solicitations.

### Stopping Your Losses

Oct. 19, 1987, was the day the stock market plunged more than 500 points. More than \$1 trillion in investor equity was wiped out. Since then, the market has rebounded, but as the events of last Oct. 13 proved, there is no guarantee that sharp drops will not happen again.

You can guard against major losses by using a simple device known as a stop-loss order. It works like this: Say you purchase XYZ stock at \$50 a share. When you buy, you leave a standing order with your broker to sell if the shares should ever decrease in value by more than 10 percent, or whatever other figure makes sense to you.

That means if your shares drop to \$45, your broker will immediately and automatically sell at the next best available price, which may be \$45 a share or even a bit below. You don't even have to make a phone call. If the shares increase in value while you hold them, the stop-loss order is never exercised.

Many brokers advise their customers to move the stop-loss figure up as the shares go up in value. Say the stock you bought at \$50 a share increases to \$60. You should consider increasing your stop-loss point to \$54. That's 90 percent of the current price. If your worst fears come to pass and the securities go into free fall, you will be able to bail out without suffering substantial losses.

## INCORPORATING

### A Reason Not To Incorporate

Conducting your business as a corporation can help limit personal liability. But beware. In a recent case, the IRS accused a corporation's owner of taking cash from the business. The IRS demanded both his personal and his business papers. He said no, claiming that the IRS could not make him incriminate himself. That's true, but only with respect to his personal records. The court said he had to furnish his corporate financial papers because a corporation has no right against self-incrimination.



*Paul N. Strassels, president of Money Matters Inc., Rapid City, S.D., is a tax-law specialist and financial adviser.*



## TAXES

## Accuracy On W-2 Forms

Employers are required to send accurate W-2s to their employees by the end of January, reflecting wages paid during the previous year and amounts

the employee and the government.

In a recent case, an employee told his firm about a mistake on his W-2. The company promised to issue a correction but somehow never got around to it. As a result, the IRS challenged the em-

<b>Form W-2 Wage and Tax Statement</b>			
<b>Copy 1 For State, City, or Local</b> Employee's and employer's copy			
ALIGN HERE →	1 Control number	3 Employer's identification number	4 Employer's state I.D. number
	2 Employer's name, address, and ZIP code		

withheld for federal, state, and Social Security taxes. The employer also sends a copy to the government and retains one for its files.

If there is an error on the W-2, the employee is to point it out to the employer. The employer in turn is supposed to issue a corrected W-2 to both

employee's return. The employee asked the firm to reimburse him for his out-of-pocket costs and the value of his time spent resolving the matter. The company refused, and the case ended up in court. The court ruled that the employee could collect from his employer.

## Erroneous Returns

With taxes as complex as they are, and with changes made frequently by Congress, by the Internal Revenue Service, and by the courts, it's a wonder that more mistakes are not made on returns. What happens when your accountant identifies an error made on one of your previously filed returns? According to the American Institute of Certified Public Accountants, the accountant should tell you about the problem and which measures you should take to correct it. The accountant is not obligated to file an amended return for you, however; the decision to file is yours.

## Tax Benefits From Disaster Losses

Many of us have suffered from hurricanes, floods, droughts, the California earthquake, and other disasters this year. If you reside in an area that was officially declared a disaster area, you can treat your losses from the disaster as though they took place last year, and you can file an amended 1988 tax return to claim those losses. But first calculate the disaster losses using both your 1988 and 1989 taxes to see which results in the greater overall tax benefit. Then file accordingly.

## Who's Paying What

Last year, the IRS took in \$935 billion. Corporate taxes accounted for 12 percent of the total; taxes paid by individuals, 51 percent; and employment taxes, 34 percent. The rest came from estate, gift, excise, and miscellaneous taxes. Those individuals earning above

\$75,000 a year paid over 50 percent of their income in federal, state, and local income taxes, sales taxes, and real-estate and personal-property taxes.

## When A Business Is Not A Business

Setting up a small, part-time business at home is a wonderful way to get started. But no matter how tiny the enterprise when you begin, you will have to report your income and claim your expenses on your tax return—probably on Schedule C, which is used by sole proprietors.

The IRS rarely has a problem with small firms that show a profit, but operating in the red is tantamount to waving a red flag in front of a bull. In one case, a taxpayer deducted more than \$10,000 in net business expenses from his small firm's operations. The IRS ruled his was more like a hobby than a true business, and the U.S. Tax Court agreed. The taxpayer spent only 35 hours during the entire year on his sideline "business." Of course, if it had operated in the black, the IRS would have collected tax on the net profits, no matter how little time was spent running the enterprise.

## Retirement Plan Reminder

To deduct contributions to your self-employed retirement plan, it must be set up by year's end, but your contributions can be made as late as the date you file your return, including extensions. Those with individual retirement accounts can establish and fund them as late as mid-April 1990 and still deduct the contribution.

## BORROWING

## Cosigning Pitfalls

Whether it is in your capacity as employer, parent, or friend, you may be called upon to cosign a loan. Think carefully before you agree. Your own financial well-being may be on the line.

When you cosign a loan, you are guaranteeing repayment if the primary borrower fails to meet his or her financial responsibility. In that event, the lender not only has the right to bill you but also can sue you if you don't pay. What's more, you remain responsible as cosigner until the loan is repaid in full, even if the primary borrower makes every payment on time.

If you apply for a loan yourself, you will have to list the cosigned loan as one of your liabilities. Say you cosign a 30-year, \$150,000 mortgage that your son (or employee, or other individual) needs to buy a home. Ten years later, you may want to take out a new mortgage or equity loan yourself. Your lender will count that cosigned loan against you in figuring your ability to pay. Your son's lender will not readily agree to release you from your responsibility as cosigner, despite your son's improved financial condition.

Get your son to write to the lender. Explain the situation and cite figures to prove that you will never be asked to make his payments. At the same time, you and your son should meet with a senior officer of the lender and state your case. If that approach does not work, ask your son to refinance the loan to get you off the hook.

## His And Hers

Both husband and wife should have separate credit histories no matter how long they have been married. That way, you will have your own separate file at the local credit bureau. Joint credit accounts, like your credit cards and bank and other installment loans, should be listed under each name, so that both of you accumulate a good record for paying those accounts as agreed.

Ten years ago, separate headings were not required, so many married women with joint accounts that were opened before then may not have credit histories of their own. That can present a problem in case of divorce or the death of the husband. The surviving wife may find that she has no credit history (good or bad) even after years of faithfully paying the bills.

If you don't have a separate credit record, or if some accounts are not listed under your name, write to the credit bureau, provide correct information, and ask that it be added to your file. Also write to creditors, and ask that from now on they report your activities under both names. **■**



# For Your Tax File

*What you need to know to keep taxes from overtaking you.*

By Gerald W. Padwe, C.P.A.

## DEDUCTIONS

### Accrual, Cruel World

Sometimes Congress seems to take a "heads you lose, tails I win" approach to the Tax Code. The accrual method of accounting allows much more of that, and in taking up future tax legislation, Congress may well consider requiring more businesses—even service-oriented partnerships, sole proprietorships, and S corporations—to use the accrual rather than the cash method.

Claiming deductions on accrued liabilities can be tricky. The rule on deductions for accrued liabilities is that they have to be definite, not estimated, expenses. The fact of the liability has to be established by "events" that determine the amount of the liability with reasonable accuracy. This test is the critical starting point for accrual-basis deductions. But when is an event an "event"? A recent decision in a federal appeals court gave an interesting slant to the word "event," and it gave a corporate taxpayer a significant deduction before payment.

In 1980 a company settled a patent-infringement suit by agreeing to pay an inventor \$1,250 a month for the rest of her life, including a guaranteed payment term of 48 months. The company's tax return for that year determined its liability to the inventor by using mortality tables showing her life expectancy as 16 years, and it deducted the \$240,000 that would be payable at \$1,250 a month for 16 years.

The Internal Revenue Service disallowed all but the \$60,000 the inventor would get in 48 months. Mortality tables doubtless are accurate for large populations, said the IRS, but not necessarily for one person; the inventor might live more or less than 16 years.

The only certainty in the agreement, as viewed by the IRS, was that 48



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*For the masses, the IRS argued, mortality tables doubtless are accurate, but not necessarily for a party of one.*

monthly payments would have to be made whether the inventor lived or died. In short, all "events" to fix the validity of the \$240,000 deduction could not occur until the inventor had actually survived for 16 years. The proper tax treatment would be a deduction in the year of settlement for \$60,000, then a deduction of \$1,250 for each monthly sum paid after the 48th month.

The U.S. Tax Court disagreed with this analysis, as did the 2nd U.S. Circuit Court of Appeals. The "all events" test contains two prongs. First, all events must have occurred to establish the fact of liability—in this case, the sign-

ing of the settlement agreement dismissing the suit and obligating the company to pay \$1,250 per month. The second prong requires a determination of liability with "reasonable" accuracy, not with "absolute," or "total," accuracy. The use of mortality tables in this context was "reasonable." Thus the test's two prongs are satisfied; all \$240,000 is deductible.

Both courts dismissed the concept of survival as an "event" necessary to satisfy the "all events" test. An "event" changes the status quo. Since the inventor is alive,

her survival in month 49 is not a change in the status quo but a continuation of it. Therefore, it would not be an "event" under the "all events" test.

In its original return, the company claimed only the present value of the \$240,000 of payments over the 16 years, or \$120,000.

Before the case went to the tax court, however, the corporation had changed its position and determined that no recognition need be given for the concept of the time value of money. The tax court agreed, and the IRS did not appeal that finding.

Under today's tax rules, however, the time value of money is important to accrual-basis deductions. If a similar settlement were negotiated today, the IRS would have a strong case for limiting each year's deduction to the amount paid to the inventor that year.

## TAX FILING

### Year-End Reminders

The continuing implementation of the 1986 tax-reform law suggests a couple of points to keep in mind before the new year arrives. For example, personal interest continues to be phased out as a tax deduction. In 1989, such interest is 20-percent deductible; in 1990, it will be only 10-percent deductible. Therefore, it makes sense for most taxpayers to catch up with interest on credit-card balances, life-insurance loans, etc., by paying off accumulated 1989 interest before Dec. 31 rather than waiting until 1990.

Corporations subject to the alterna-

tive minimum tax should remember that 1989 is the last year of the infamous book-income adjustment. Beginning next year, other rules will replace book income. If there are to be significant financial transactions increasing book income or equity, and if they can occur in either 1989 or 1990, a corporate AMT taxpayer might consider postponing the transaction until 1990.

Finally, an important change takes place regarding U.S. savings bonds issued after 1989. Interest on those bonds that is used to pay a child's educational expenses will be wholly or partially exempt from tax if the parents' income is less than \$90,000. **MB**



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



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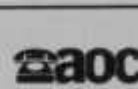


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# Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore and Bradford A. McKee



## LIVESTOCK

### Facts On Flocks

My brother and I are trying to establish ourselves in the sheep business. For the past year, we've spent a lot of money on sheep, veterinary bills, and feed and equipment, but we don't seem to be making any money. Are there any books that can help us get our business going and become more profitable?

A.V., El Paso, Texas

*Sheep Breeder* magazine offers information on the problems and successes of raising sheep, and each month the publication carries articles on a different breed of sheep. A subscription costs \$18 for 10 issues and can be obtained by writing to the magazine at 1120 Wilkes Blvd., Columbia, Mo. 65201. Nola Jacobson of *Sheep Breeder* is willing to help you with questions about your particular breed. You can reach her at (314) 442-8257.

For information on how to improve your business's bottom line, you can call Darryl McDonald at the Texas Department of Agriculture; the number is (512) 463-7476.

## RECREATION

### Campground Groundwork

I am interested in opening a campground. Where can I find information on this?

R.K., Milan, Ohio

There are about 10,000 private campgrounds in the U.S., says Micki Leak of the National Campground Owners As-

## MARKETING

### Firm Lists

I am interested in starting a business-list company. Where can I find guidance on charges, the information needed on lists, and the chances of success?

D.C., Bellevue, Neb.

Success in this field depends on the market you want to cover and on how crowded it is, says Marie Weakley, editor at the Directory Clearinghouse in Philadelphia. She suggests you decide the type of list you want to compile and where you want to send it.

The Directory Clearinghouse has two useful publications on the directory industry: *The Morgan Report on Directory Publishing*, a monthly newsletter (\$90 per year), and *Directory Publishing: A Practical Guide* (\$29.95 plus \$2 postage). Both are available from Directory Clearinghouse, c/o Morgan-Rand Publications, 2200 Sansom St., Philadelphia, Pa. 19103; (215) 557-8200.

### Direct Mail

Are there any really good books or other publications on how to get started in direct mail?

S.S., Prospect Heights, Ill.

The Direct Marketing Association has a 22-page guide of books, catalogs, and lists for direct marketing. The subjects include start-up, telemarketing, television direct response, statistics, and research. Contact DMA at 6 E. 43rd St., New York, N.Y. 10017 or call (212) 689-4977.

sociation, whose members represent about 2,800 campgrounds. The association offers a free list of publications on starting a campground, technical points, zoning, and industry standards. Contact Leak at NCOA, 11307 Sunset Hills Road, Suite B7, Reston, Va. 22090; (703) 471-0143.

## FAMILY BUSINESS

### In Search Of . . .

I am interested in beginning a family business but do not know where to begin. I enjoy baking and making candy, but I don't know if this would be profitable. Do you have any information that would help me in choosing a business?

G.H., Carrollton, Ga.



Family-business expert Sharon Nelton, special correspondent with *Nation's Business*, says you should start your business first, and if family members become involved, it will become a "family business."

Nelton recommends that if your family does join your business, "make sure that all members have clear roles so they don't step on one another's toes." She adds that "each person must make a valuable contribution in a specific area of the business."

A useful publication on starting a business is *The Do-It-Yourself Business Book*, by Gustav Berle (John Wiley and Sons, \$14.95). Berle is former director of marketing and communications, membership and training for the Service Corps of Retired Executives (SCORE), the largest volunteer organization for counseling small-business people. Call the Atlanta SCORE office, (404) 347-2441, for information on the business you are considering.

ILLUSTRATIONS: SUSAN POSTER





## CUSTOM CRAFTS

### Framing: The Question

Where can I obtain information that would tell me about opening a store that does custom picture framing?  
N.M., Hackensack, N.J.



The Professional Picture Framers Association can send you its free package of start-up information. Called "A New Framer's Kit," the package contains information on the supplies you would need, how to write a work order, and how to lay out a framing shop. The kit also has a list of framing publications, the names of companies that sell art prints, and articles on how to frame different types of art.

Contact the association at 4305 Sarelle Road, Richmond, Va. 23231; (804) 226-0430.

## PUBLISHING

### For Fun And Profit

I have accumulated and edited 350 business-related jokes and written a book to sell. How can I find a publisher?  
W.M., Columbia, S.C.

Examine library reference books such as *Literary Market Place*, which lists U.S. publishers and the types of books they publish, and *Writer's Market: Where to Sell What You Write*. Many publishers review only manuscripts submitted by literary agents; who receive percentages of earnings from books.

Helen Stephenson, executive director of the Authors Guild, suggests you explore lists of agents to find the right one for your book. She recommends *Literary Agents of North America, Third Edition* (\$13.30 plus postage, Author Aide Associates, 340 E. 52nd St., New York, N.Y. 10022; 212/758-4213). For two free guides—one on how to submit a manuscript, the other on how to find an agent—write to Authors Guild, 234 W. 44th St., New York, N.Y. 10036-3988.



## ASSOCIATIONS

### Nurses' Aid

I would welcome information on starting an association for nursing agencies.  
J.A., Edison, N.J.

There are 54 organizations focusing on various specialties within the nursing profession, including registered nurses, visiting nurses, licensed practical nurses, and allied health professionals.

Mary Park of the American Society of Association Executives recommends that you review the *Gale Encyclopedia of Associations* to see which associations now serve nursing. "Competition for members will be stiff," says Park, "and a lawyer will be needed to start an association." You can contact ASAE at 1575 I Street, N.W., Washington, D.C. 20005; (202) 626-2723.



## TRANSPORTATION

### Cover Up

Our firm manufactures truck tarpaulins. We are interested in marketing these specifically to wood-chip haulers and asphalt haulers. Where can we get a list of prospects in the continental U.S.?  
S.L., Houston

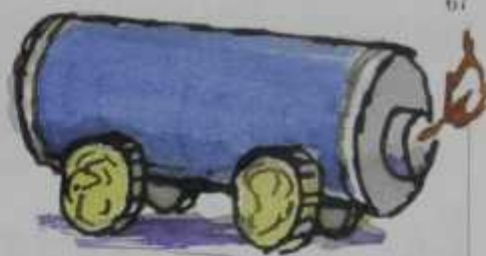
Experts in both the wood and the asphalt industries suggest that you approach the markets state by state. They point out that trucking regulations vary considerably among states; requirements typically depend on the materials that are transported and the highways that are used.

Jeff Patterson, government-affairs director for the National Asphalt Pavement Association (NAPA), recommends that you first find out what states require tarps for wood and for asphalt. Then you should obtain lists of haulers from private, statewide asphalt associations and forestry associations.

Bill Tikkala, special-projects forester for the American Forestry Association, says forestry associations can be found in most state capitals.

To obtain a list of state asphalt associations, you can contact Patterson at NAPA, P.O. Box 517, Riverdale, Md. 20737; (301) 779-4880.

Both Patterson and Tikkala suggest you ask these state associations for trucking and transport lists for specific states or areas.



## ENTREPRENEURSHIP

### Propane Power

I am interested in owning a retail propane gas company to serve rural residential customers. Where can I obtain information about this industry?  
R.B., Dallas

There are national standards for the handling of propane gas, but most states set the regulations, says Laurel Ward of the National Propane Gas Association. She suggests you decide on your market and study the feasibility of a company within that area. For more information, contact Ward at NPGA, 1301 W. 22nd St., Oak Brook, Ill. 60521.

To learn the rules and regulations that apply to zoning, contact Miriam Harris in the Small Business Department of the Greater Dallas Chamber of Commerce, 1201 Elm St., No. 2000, Dallas, Texas 75270; (214) 746-6600.

Two publications on propane gas are *Butane Propane News*, P.O. Box 419, 338 Foothill Blvd., Arcadia, Calif. 91006; (818) 357-2168, and *LP Gas* magazine, 131 W. 1st St., Duluth, Minn. 55802; (218) 723-9275.

### High Flying

Where could I find information on opening a kite store?  
J.G., Menlo, Iowa

The Kite Trade Association, at 50 First St., Suite 310, San Francisco, Calif. 94105; (415) 764-4908, will supply a member with a directory of people in the industry who would be willing to "sell you their expertise," says Steve Rubin, a director of the organization. He also suggests you read trade publications such as *American Kite* and *Kite Lines*. For current or back issues, call Windborne Kites, (408) 373-7422.

## HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact "Your Small Business Survival Guide," at \$3 a copy. To order, call (202) 463-5433 or write to Diane Lewis at the address above. **B**



## COMMENTARY

# The "Savings Crisis" Is A Caricature

By Warren T. Brookes



**A**s the nation marks its seventh consecutive full year of economic expansion, the policies that generated this record-breaking recovery are still subject to scorn and doomsday forecasts.

The thrust of this attack is that the recovery has been built on the sands of debt and deficits and on a national myopia of "dissaving" by both businesses and consumers. Indeed, some say the U.S. has a "savings crisis."

Superficially, the Commerce Department data have supported that view. The department's "personal savings rate" measure has fallen from an average of 6 percent in 1980 to about 4 percent in 1987 and 1988. This, combined with continuing federal budget deficits of about \$150 billion a year, has been used to portray a nation eating its seed corn and plunging into an abyss of insolvency.

Fortunately, much of that picture is a caricature. It's partly the product of inadequate accounting in what are called the national income accounts, which measure personal savings entirely as a "residual" left over after subtracting personal consumption from personal income.

But that simplistic residual ignores important factors such as investments in homes and condominiums, in cars and other consumer durables, not to mention the value of appreciation in various investments.

Families that work hard to make high mortgage payments on strongly appreciating first or second homes, for example, may show a very low "savings rate" to the Commerce Department in terms of net cash flow, even as their actual balance sheets steadily grow stronger.

This is why serious economists pay more attention to the Federal Reserve Flow of Funds analyses of national balance sheets. Using those measures, Larry Kudlow and Lincoln Anderson, top economists at Bear Stearns & Co., say in an Aug. 10 report: "The balance sheet of American households has never looked better. Even before this year's capital gain [from the market] and saving, total net worth per household, including structures, land, and businesses, rose above \$170,000 by year-end 1988, and in 1982 dollars to \$135,000, a record high."

The report states: "Some worry about rising consumer and home-equity debt, and these liabilities have moved up. But the ratio of deposits (checking, saving, and money-market fund deposits) to total financial liabilities, while down the last two years, is still a staggering 93 percent. In other words, households can cover 93 percent of all financial liabilities with cash. And that would still leave all

their stocks, bonds, and home equity intact."

One reason for this strong position, Kudlow and Anderson say, is the strong rise in personal savings since 1987: "Over the last two years, 25 percent of the rise in disposable personal income has been put into savings." The savings rate in 1989 is back up close to 6 percent.

Also, stock equity values have been soaring—over 25 percent this year—"which adds a \$500 billion gain to direct holdings by households." Of course, critics argue that that could all be wiped out in a few hours on the stock market.

But even given the 1987 slide, the market values of equity per household have risen from about \$15,000 in 1980 to more than \$30,000 at the end of 1988; now they are just under \$37,000, a 60-percent real rise after inflation since 1980, after falling 36 percent from 1970 to 1980.

Simultaneously, total personal savings shot to \$229 billion in June 1989 from a low level of \$55 billion in the second quarter of 1987. This pushed the total national savings (personal plus corporate and government) to \$700 billion, up from \$510 billion in the third quarter of 1985.

As the U.S. Chamber of Commerce noted recently, the total 1988 savings rate as measured by the Federal Reserve was about the same as it was during the 1960s, or about 12 percent of disposable income.

So the question is why there is all the fuss about the alleged "savings crisis." Ironically, much of it is coming from those who are eager to promote a lot more government spending (consumption) but have to sell us on raising taxes first. As U.S. Chamber economist Orawin Velz warns, "artificial concern" over our alleged savings crisis "gives those who ad-

vocate tax increases a claim that consumption urgently must be discouraged through higher taxes in order to stimulate saving," by cutting the federal deficit.

But raising taxes not only would fail to lower the deficit but also would stimulate even higher government consumption, and such action also would savage the very strong current surge in personal savings under present "hold-the-line" fiscal policies.

In fact, the federal budget deficit is now down to 3.2 percent of gross national product, and together with the huge pension-fund surpluses being built each year at the state and local levels, the total government deficit in the national income accounts is now down to about 1.8 percent, one of the lowest levels for any major nation.

Kudlow and Anderson argue that the "current rise in saving is a measure of confidence in U.S. economic policy and performance." President Bush has been right to resist any tax hike and to press on for cuts in the tax rates on real savings and investment. ■

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COMMENTARY

# Where I Stand

*Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.*

## 1. Mandate Employer-Paid Health Insurance?

Congress is considering legislation that would require all businesses to provide health insurance to their employees. This mandate, proponents say, would extend coverage to many of the 31 million Americans now lacking it but would not involve any government expenditures that would increase the federal budget deficit. Opponents contend

mandatory coverage would impose excessive costs on employers and reduce their flexibility to tailor benefits to employees' needs. Should Congress require all businesses to provide health insurance as an employee benefit?

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Index capital gains instead of cutting the tax rate?	24%	59%	17%

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mandatory coverage would impose excessive costs on employers and reduce their flexibility to tailor benefits to employees' needs. Should Congress require all businesses to provide health insurance as an employee benefit?

## 2. Copy Canadian Health System?

Some in Congress favor a national medical-care plan along the lines of Canada's tax-financed system. They argue that a similar plan in the U.S. would reduce health-care costs, which now exceed 11 percent of gross national product. Those proponents point out that Canada's national health-care system costs about 9 percent of GNP. Oppo-

nents say health-care costs in Canada are increasing almost as rapidly as those in the U.S. Moreover, they point out, Canadians face lengthy waits for some procedures, and their system lacks some types of new medical technology. Should the U.S. adopt a national health-insurance system like Canada's?

## 3. Scrap Current Health-Care System?


Some frustrated lawmakers contend America's health-care delivery mechanism is broken beyond repair. They conclude costs will continue increasing at a much faster rate than inflation as long as purchasers of health services—the federal government, businesses, and individuals—lack effective means of restraining price increases. Others re-

main convinced that health-care costs can be controlled under the current system through congressional actions that would include steps to discourage the practice of "defensive" medicine and to ensure that public programs meet the health needs of the indigent. Is America's current health-care system damaged irreparably?

### Verdicts On October Poll

*Here is how readers responded to the questions in the October issue.*

	Yes	No	Undecided
Cut the tax rate for all long-term capital gains?	75%	19%	6%
Exclude some investments from capital-gains relief?	23%	67%	10%
Index capital gains instead of cutting the tax rate?	24%	59%	17%

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North American Specialty

Insurance Co. **30**

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# Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

## Civil RICO Act Reform

Measures to reform the Racketeer Influenced and Corrupt Organizations Act (RICO) are moving in both houses of Congress.

RICO was enacted in 1970 to inhibit organized criminal activity and to pro-



PHOTO: PETER GARFIELD-FOLIO INC.

tect innocent businesses from infiltration, unfair competition, or massive fraud by organized crime. Congress intended that the statute be enforced primarily through criminal prosecutions.

However, certain provisions within RICO have allowed for private civil RICO suits to be added to ordinary commercial lawsuits. As a result, many legitimate and well-respected businesses have found themselves engaged in civil RICO litigation. In most cases, the commercial lawsuits have centered on a dispute over the interpretation of statutes or contracts and did not involve a case of major commercial fraud.

Proposals to redirect RICO to its intended purpose of attacking organized crime include H.R. 1046, by Rep. Rick Boucher, D-Va., and S. 438, by Sen. Dennis DeConcini, D-Ariz. Both bills have strong support from business and labor groups.

Contact your representative and senators, and urge them to support legislation that would preserve RICO as an effective tool against crime while preventing its use against legitimate businesses in routine disputes.

## Global Climate Changes

Recent concern over possible changes in the world's climate has received widespread congressional and international attention.

Contrary to most media reports, there is no consensus within the scien-



PHOTO: ERIC FOGENFOL-FOLIO INC.

tific community as to whether there is a global warming trend. Most experts agree, however, that the "greenhouse effect," which occurs when heat is trapped in the earth's atmosphere, is real; and there is broad agreement that it can result in global warming.

Emissions of "greenhouse" gases such as carbon dioxide from natural and man-made sources are common throughout the world. Unilateral action by the U.S. to reduce man-made emissions—taken without regard as to whether such emissions actually affect world climate—would have little impact and could jeopardize the U.S. economy.

The U.S. Chamber of Commerce believes that any man-made climate change is cause for serious concern and action. It strongly supports efforts to gain a better scientific understanding of global climate change to ensure that the right actions are taken.

Contact your representative and senators, and urge support for measures that expand research on possible changes in the atmosphere and that recognize that this is a global issue that requires international cooperation.

## Farm-Policy Reform

Congress is expected to begin work early next year on a five-year reauthorization measure that governs federal farm programs. The farm bill will have important implications for the U.S. economy, because farms and agricul-



PHOTO: EVERETT C. JOHNSON-FOLIO INC.

ture-related businesses account for 20 percent of the gross national product and provide one of every five jobs.

Prior to 1985, the federal government's policy of commodity price supports often resulted in massive overproduction of milk, grains, and other commodities at great cost to taxpayers. Guaranteed prices for certain crops encourage farmers to make production decisions based on government subsidies rather than market opportunities. Production of nonsubsidized crops, which may be in greater demand, suffers as a result.

At the same time, price supports—set higher than world market price levels—make U.S. agricultural products less competitive.

The 1985 farm bill included many market-oriented reforms that loosened the link between crop subsidies and farmers' production decisions. As a result, U.S. farm exports have increased to nearly \$40 billion annually.

Contact your representative and senators to urge their support for further market-oriented reforms. **RB**



# Editorial

*"Free-market economics has done more to alleviate ... [fear of poverty and war] than any other system."*

## Free-Market Economics: Antidote For War And Poverty

A few inches of used barbed wire would not, as a rule, seem to be a particularly impressive gift. But an American business leader who was recently presented with just such an item considers it the greatest honor bestowed on his organization.

Richard L. Leshner, president of the U.S. Chamber of Commerce, calls it "our No. 1 trophy." For this is a very special piece of barbed wire. It was part of the Iron Curtain that has kept the world divided into two opposing, distrustful, heavily armed spheres for 45 years.

Gaps are beginning to appear in that curtain. One is on the Hungary-Austria border, where the barbed wire that had formed the Iron Curtain between those two nations has been removed as Eastern Bloc nations turn increasingly outward in search of solutions to their crucial economic and social problems.

It was a section of that barrier, mounted on a plaque, that Hungarian officials presented to Leshner in recognition of the assistance his organization is giving to Hungary in its quest for economic and political reform. (Leshner is only the third U.S. recipient of the award. The other two are President Bush and R. Mark Palmer, America's ambassador to Hungary.)

The presentation to the U.S. Chamber president was made in Hungary on a recent trip that also took Leshner to Czechoslovakia. In both countries, he enthusiastically pressed the free-enterprise policies that he has carried to all sections of the globe.

The award of the plaque, Leshner said, is a recognition of the U.S. Chamber's worldwide standing as the leading champion "of freedom and free enterprise." And, he adds, both political and economic freedom form the basis for mankind's ultimate goal—world peace.

Carrying that message behind the Iron Curtain, he told an overflow audience of students and faculty members at the University of Prague:

"We're at the dawn of a new era in human history. Throughout most of history, mankind has lived under the shadow of two overriding fears—the fear of poverty and the fear of war. Free-market economics has done more to alleviate these fears worldwide, particularly in the last 10

years, than any other system that has been tried since the dawn of history."

Though preaching free enterprise to those who have been isolated from it by their governments is a major undertaking, it is only one of many components of the Chamber's global mission. Other components include:

- The Center for International Private Enterprise (CIPE), which nurtures private enterprise in many countries.
- A world network of American Chambers of Commerce (AmChams) and bilateral and multilateral business councils for interaction between U.S. and foreign businesses.
- Lobbying and litigation by the Chamber in support of freedom of international trade.
- A global communications network utilizing broadcast and print.

Hungary has been the beneficiary of Chamber activities in all these areas. In addition, Leshner has spoken with officials, business people, and students there twice since 1986. Richard Rahn, the Chamber's chief economist, is helping Hungary reform its currency. CIPE recently funded a market-economics course at Karl Marx University in Budapest. The first AmCham in Eastern Europe will open there soon. Leshner is working with the U.S. Information Agency to televise business and economic programs to Hungary.

The overall message that the business federation is bringing to nations now seeking new policies to replace badly failed ones was summed up by Leshner in a statement made in Czechoslovakia but applicable to the Chamber's world mission everywhere:

"The American business community, the United States Chamber of Commerce, and our government all care about [your] future. . . . We want you all to succeed. We want human progress through economic progress for all of the people of the world. The 21st century, we can be sure, will be exciting, will be full of challenge, full of change, and, indeed, will have the greatest prosperity we have ever seen in all of history. But the prosperity will be for those who prepare for it and produce it. It has always been the same." **IS**



PHOTO: LEE ANDERSON

The "IRON CURTAIN" plaque given to U.S. Chamber President Richard L. Leshner contains a piece of the Iron Curtain sector that Hungary tore down. The message: "Its dismantling was made possible by the will of the Hungarian people and the recognition of peaceful coexistence and mutual interdependence. . . . We believe that the artificial, physical and spiritual walls still existing in the world someday shall collapse everywhere."



# Free-Spirited Enterprise

*Fresh thinking from the frontiers of American commerce.*

By Janet Lowenstein

## PLAY TIME

### Reach Out And Teach Someone

How do you sell piano lessons nationwide? By phone, says Duane Shinn, owner of Keyboard Workshop, of Medford, Ore.

Shinn offers three-minute recorded lessons by phone 24 hours a day, seven days a week. The service, called Dial-a-Piano-Lesson, teaches different techniques or styles each week, such as how to play chimes or country music. The lessons promote the courses Keyboard Workshop sells on audio and videocassettes.

The only charge for the lesson by phone is the cost of the call—and the piano.



ILLUSTRATIONS: STUART ARMSTRONG

## NOTE WELL

### It's In The Pouch

Just in time for holiday giving, Peter Altman offers a way for you to make sure your gift card stays with your gift bottle. Altman, president of San Diego-



based Private Labels, produces Bottle Notes. These colorful card holders have a loop that slips around the neck of a bottle and a pouch that holds a matching card.

Sign the card, and even on the morning after, your friends will know who gave them the gift.

Bottle Notes sell for about \$1.25 each.

## HIGH FINANCE

### Street Talk

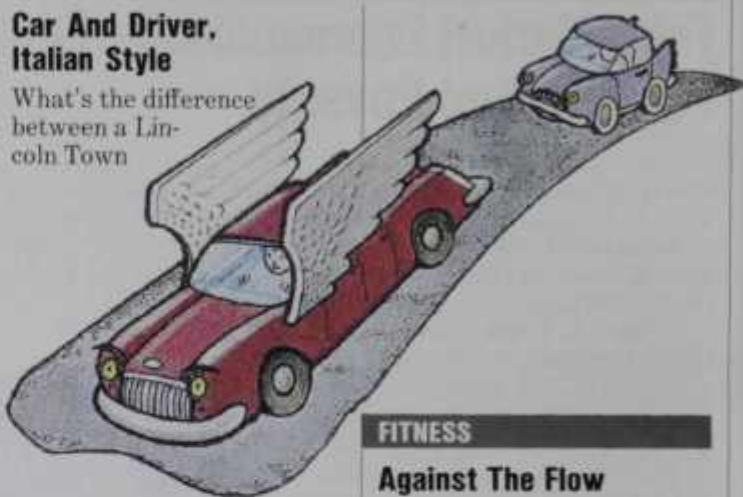
If you can't tell a high stepper from a fallen angel and think a lollipop is candy, you may have trouble following the Big Board. Kathleen Odean turns Wall Street outsiders into insiders by describing more than 500 stock-market terms in *High Steppers, Fallen Angels, and Lollipops: Wall Street Slang* (Henry Holt).

A "high stepper" is a fashionable stock, a "fallen angel" is a stock or bond that fell badly after reaching success, and a "lollipop" lets shareholders sell their stocks back to the company at a premium.

## ON THE MOVE

### Car And Driver, Italian Style

What's the difference between a Lincoln Town



## FITNESS

### Against The Flow

If you feel as if you never get enough exercise, an endless pool may be just what you need. Endless Pool Swimming Machines of New York City says its pools work like a swimming treadmill. Water is forced to flow in one direction at low pressure, and the swimmer, stroking against the tide, stays in place.

This personal-sized pool can be installed on any sound, level surface and filled with a garden hose. Priced from \$13,800.



Car and Chevrolet's Geo Metro? In Italy, about 12 miles an hour.

Under a law recently passed by the Italian Parliament, highway speed limits for cars with engines of at least 1,100 cubic centimeters will be 80 mph.

Cars with smaller engines can go no faster than 68 mph.

The new regulation replaces the speed limits of 80 on weekdays and 68 on weekends and holidays—regardless of the car's size. Italian motorists didn't like that.

And we thought parking was the problem.

## COMING FEATURES IN NATION'S BUSINESS

### Small Business

What small-business people foresee for their companies and the economy in 1990.

### Congress

A look at business issues facing the next session of Congress.

### Finance

How your firm can survive embezzlement by a trusted employee.

### International

Profiles of women powerhouse exporters to Japan.



"WILL YOU SEND THIS LETTER TO SANTA ON YOUR OFFICE FAX?"

CARTOON: BRUCE SOCHMAN



# The B.E.S.T.

Our Biggest Ever Sale on Trucks

Get \$500 to \$2000 cash back on selected trucks and full-size vans in stock, depending on model. Hurry. It's all over December 31st.

## To improve your business, run our commercials.



*Dodge Ram Van 250 and Caravan C/V. We can't guarantee our commercials will run forever but we can offer the next best thing. Our exclusive 7/70 protection plan. Our attorney says you can see this limited powertrain warranty and its restrictions at your dealer.*

Unlike a lot of commercials, ours aren't loud and obnoxious. But when it comes to your business, they deliver a real punch.

Our Ram Van, for instance, comes in three sizes. With the added clout of an optional V-8. Plus up to 304 cu. ft. of available cargo capacity, so there's plenty of sales room on the inside.

And while Caravan C/V may be our smaller commercial, you can still opt for dual rear doors, a short or long wheel base and V-6 or turbo power.

Dodge Ram Van and Caravan C/V. Two great ways to make your company a commercial success.

*The tough new spirit of Dodge.*





# Do You Believe In Magic?



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unique, keyboard action, "MAGIC TOUCH."

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